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of the National Association of Real Estate Boards

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Keep 'Em on the Ground

THERE is no accounting for "hobbies." Ours used to be collecting postage stamps, but during recent years we have sent the old steed out to pasture and are riding a new mount. We are now collecting *penguins*. Replicas of that fascinatingly impossible burlesque of nature adorn most of the stable articles of furniture in the house. They are of glass, ivory, horn, papier-maché, and the last addition is actually made of white castile soap with the overcoat and muffler of black shiny felt.

And why not? We can learn a good deal from the *penguin*. For one thing he keeps his feet on the ground. He doesn't seem to be going anywhere in particular but since he has but limited use of his wings he can't indulge in long, random, and fanciful flights. And, even so, he must be successful. Witness the great colonies he has founded and is governing so well as depicted in the films which Admiral Byrd brought back from Antartica. His demeanor, his poise, his purposeful walk, and attitude in general connote good, hard, common sense.

The appraiser might well consider these traits. He too often indulges in flights of fancy. On the other hand, he is by way of adopting a sensitive micrometer for a part of his measurements, and using atmospheric calculations for the others. Mighty tomes are being compiled upon the fine gradations involved in measuring the "income stream." The stars of Hoskold and Inwood are accorded a magnitude out of all proportion to their light-giving qualities. In the meantime, price levels, capital risks and returns, and capitalization rates are picked out of a hat or taken from some passing truck.

The human being has even less wings than a penguin. But he does have two good feet and will go further if he keeps them on the ground. The appraiser is making splendid progress in building a secure and lasting profession. The public is becoming more and more aware of his progress and the need for his services. The field is large and the problems are of many kinds, but their solution requires the maintaining of all the elements in proper balance. Above all, practical common sense will remain as the greatest single requisite for success.

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Real Estate in Ancient Times

By MAURICE F. REIDY, M. A. I.

OUT of the mist of the dim past the searcher of records is bringing to us a story fascinating in its interest and enlightening in its revelation. The romance and tragedy of the simple tale of the poor, the story of the rich, the annals of war and subjugation, are revealed in detail to him who delves into this domain which has been hidden for thousands of years but which is yielding now to the conquering science of painstaking and skillful searchers.

The scientific archaeologist is bringing before our eyes the cinema of the ages. As he delves deeper and deeper each strata reveals a more remote record. He is lifting the ground that century by century has hidden the story of peoples and their affairs, and now he can bring us back by the evidence of written or recorded history some six thousand years.

There is some evidence of the house in which the prehistoric man lived after his cave life: little urn-shaped huts, round, with conical roof, a door but no windows, a hole in the roof to let out the smoke of his hearth fire.

In the latest archaeological records of Babylon we find early records that are interesting to the real estate man. There scarcely remains the stone upon a stone of these cities in this famed country which once was the glory of kingdoms and whose doom was prophesied by Isaiah. The mounds that were thought to be nature's hills have yielded to the archaeologist their ruins that have been covered for thousands of years and many interesting records. Some of these records date back about five thousand years; and they have come down to us in the form of inscriptions upon stones and clay tablets.

We now know who Sargon was, a mighty king, although until recently the mention of his existence in the old testament was not confirmed by other records; but in the ancient days his name lived as a great national hero for about two thousand years. His son has left a record cut on a boundary stone that he purchased some lands.

BOUNDARY STONES

The "Kudurru," or Boundary Stone of the land of Babylon that marked the organization of the new system of land tenure which began when the Kassites' took possession of Babylon is brought to us in full detail. These stones were set up in a prominent place on the owner's

land and their text is complete. There is the record of the grantor and the grantee, the consideration paid, the description of the land, the name of the surveyor, and the witnesses to the deed. These stones were not the original title of the deed in all probability. This was made out in the form of a clay tablet and had the impression of the royal seal and was probably kept in a secure place. The boundary stone was the public record of the deed, but while its erection was optional with the owner, its existence gave a greater protection and a surer claim for his property and was evidence of his title if the clay tablet deed should be lost or destroyed.

Our deeds today contain certain warranty on the part of the grantor in which he agrees to warrant and defend the title deed. In the old days of the Babylonian boundary stones, this warranty was not used, but instead there was an appeal to all the gods whose symbols appeared on the stone to bring down their wrath on anyone who violated the grant or who interfered with the peaceful enjoyment by the grantee of his property. The penalty, if any of the family of the grantor should make a rival claim, was a fine of twelve times the value or the amount paid for it.

In the British Museum there are several of these boundary stones of particular interest; and they record, in one of their publications, law suits carried on through three different reigns before the title was finally established as the property of one Ur-Belit-muballitat-miti. In this case the original owner of the estate died without a recognized heir and rival claim to the property was instituted by his relatives. The case had come before the succeeding kings so much that there were two unsuccessful attempts to compromise. The story of this title is extremely interesting in its detail and well worth reading.

Then there is the story on another boundary stone of the gracious act of kind Nebuchadnezzar who rewarded one of the captains, who fought at his right hand during a war of revenge and conquest, by freeing the captain's town forever from taxes and relieving it of dues and confiscation. Inscribed on this stone is a description of a battle fought in the extreme heat of the summer time when

> "the axe burned like fire, and the . . . . . roads scorched like flame. There was no water in the wells, and the drinking supply was cut off. The splendor of the great horses failed, and the legs of the strong man turned aside."

AN EXAMPLE OF A PREHISTORIC DEED

Another deed recording a purchase by Marduk-nasir, the king's officer, states the consideration paid, which consisted of a chariot, saddles, two asses, an ox, grain, oil, and certain wearing apparel, including undergarments, all to the value of seven hundred and sixteen shekels of silver. The deed reads in part as follows:

> Five gur of corn-land, a gan, measured by the great cubit, being reckoned at thirty ka of seed. on the bank of the BAD-DAR Canal, in Bit-Khanbi, the upper length to the north, adjoining Bit-Khanbi;
> the lower length to the south,
> adjoining Bit-Imbiati;
> the upper width to the west,
> adjoining Bit-Khanbi;
> the lower width to the east,
> adjoining the bank of the BAD-DAR Canal,
> which from the hand of Amel-Enlil,
> the son of Khanbi, Marduk-nasir, the king's officer,
> has received by purchase.

After the description of the different items included in the consideration paid and the acknowledgment of their receipt by the grantor, there comes this curse which the grantor calls down upon anyone who shall question the title:

> Whensoever in later days an agent,
> or a governor, or a prefect, or a superintendent,
> or an inspector, or any official whatsoever, who shall
> rise up and

be set over Bit-Khanbi,
shall direct his mind to take away these lands,
or shall lay claim to them, or cause a claim to be made.
or shall take them away or cause them to be taken away,
or shall side with evil
and shall return those lands to their province,
or shall present them to a god, or to the king, or to
the representative of the king,
or to the representative of the governor, or to the
representative of his council
or to any other man,
or shall cause curtailment or diminution,
or shall say, "The lands were not the gift of the king."
or because of the curse shall cause another to take them,
or shall send a fool, or a man who is deaf, or one who
is feeble-minded, or a vagabond, or one who is without
intelligence, and he shall cause him to remove this
memorial-stone, or shall cast it into a river,
or put it in a well, or destroy it with a stone, or
burn it in the fire,
or hide it in the earth, or hide it in a place where
it cannot be seen,
upon that man may Anu, Enlil, Ea and Ninmakh,
the great gods look with anger,
and may they curse him with an evil curse that cannot
be loosened.
May sin, the light of the bright heavens, with leprosy
that never departs
clothe his whole body, so that he may not be clean till
the day of his death,
but must lie down like a wild ass at the outer wall of
his city.
May Shamash, the judge of heaven and earth, smite his
countenance, so that his bright day may turn to darkness for him.
May Ishtar, the lady, the princess among the gods, send
a curse (?) upon him,
and in misery (?), her message of anger,
may he multiply his words day and night,
and like a dog may he pass the night in the open place of his city.
May Marduk, the king of heaven and earth,
with dropsy, the bond of which
cannot be loosened, fill his body.
May Ninib, the lord of the boundary and the boundary-stone, tear out his boundary-stone,
tread down his boundary, and change his holding.
May Gula, the mighty physician, the great lady,
put a grievous sickness in his body,
so that he may pass light and dark blood like water.
May Adad, the ruler of heaven and earth, overwhelm his fields, so that there may spring up abundantly weeds in place of green herbs and thorns in place of grain.
May Nabu, the exalted minister, appoint him days of scarcity and drought,
as his destiny.
May all the great gods, whose names are mentioned on this memorial-stone,
drive him into evil and unhappiness.
His name, his seed, his offspring, (and) his posterity
may they destroy in the mouth of widespread peoples.
The name of this memorial-stone is "The Establisher of the Boundary forever."

There follows after this, the line of witnesses to the deed, which in this case number thirteen, including the son of the governor, the son of the administrator, and the son of the king.

In *Babylonial Life and History,* a new book by Sir E. A. Wallis Budge, we learn that the women in the days of Babylonian history had rights and privileges that were pretty broad. The woman was always mistress of the dowery which she brought and she could spend her money in any way she pleased. Records prove that she engaged in commercial undertakings and bought and sold slaves and lent money on interest. Incidentally, if for some reason she could not, or would not live in the same house as her husband, she could compel him to give her an alimony.

The house of every well-to-do man had a bath room, which contained a large flat vessel, which served as the bath.

To be an estate agent in those days required special training. Like the man who aspired to be a physician or a lawyer, the

estate agent or surveyor was placed under the tuition of expert teachers.

Generations of Homes in Palestine

Archaeological research in Palestine has brought to light some things that confirm details in the old testament, and much additional knowledge. From the Tells scattered throughout the country there has been brought the story of successive settlements, one on top of the other. Houses in these early days were flimsily constructed. Commonly they were built of undressed blocks of stone set in a mud mortar with flat mud roofs. When a house chanced to fall, the stones were picked out of the heap for re-use, and the mud was trampled down to form the subsoil of the new building.

Professor R. A. S. Macalister, in his new book, *A Century of Excavation in Palestine,* outlines in much detail and in a fascinating way, the story of some of these Tells. He describes the accumulation of the rubbish, the gradual raising of the street levels, the building period after period, of foundation upon foundation and the consequent raising of the street levels so that from the natural summit of the hill where the first inhabitants settled, the last builders erected their houses on a level some thirty or forty feet higher.

Many of the habitations in Palestine were in caves or in houses that were part caves with structures erected in front in connection with the entrance. These caves were largely artificial and were hewn in the soft chalky lime stone of the hills and frequently consisted of chambers united by doors and passages. Some of these are quite extensive. One was said to be planned to contain about sixty chambers, large and small; and Professor Macalister tells us that many caves with ten and twenty chambers were found.

There must have been bachelor apartments in those days, and one of these was inhabited by a young man who was quite as sentimental as are some of the men of his type today. He lived about two thousand years ago and his name was Nikateides. There was a girl who captured the fancy of his heart (maybe it was in the springtime) but he left a record of her that is well nigh imperishable along the wall of his cave home in Greek letters of monumental size. He inscribed his fancy in words that translated into the customary language of today would read "I think that Snub-nose girl is a peach," and he signed it Nikateides.

The excavations reveal many cases of the burial of infants under the walls of houses and in some cases there are the bodies of grown persons or the bones of sheep. This may have been a form of sacrifice, just as in modern times in Palestine, a sheep is usually killed at the beginning of a house building.

We find in these records of Palestine, as well as those of Babylon and Persia, evidence of the real estate agent. His name appears in some of the documents, and it is probably true that he was a considerable factor in the transfer of properties.

Real Estate in the Roman Empire

The outline of the story of the Roman Empire contained much that enlarges our knowledge of real estate business. The early Emperors and Capitalists were extensive investors in land, both in their own country and in the Roman dominions.

At one time, to be a soldier in the Roman Army one must first be a land owner; and to the veterans of the different wars the emperor would apportion holdings of land, sometimes in Spain, or Britain, or Gaul, or Asia Minor, or in one of the other Roman dominions.

We are greatly indebted to Professor M. Rostovtzeff of Yale University for the

knowledge he has brought to us with the painstaking skill of the profound scholar in his recent book, *The Social and Economic History of the Roman Empire.* There is also much interesting reading in Professor Rodolfo Lonciani's *Ancient Rome.*

We learn that there was a gradual tendency during the period of the Roman Empire for the concentration of lands in the hands of the aristocracy. Then gradually the small land owner was forced out of his possessions and degraded to the position of a tenant, thus reverting to the forms of land ownership that in earlier centuries prevailed in the oriental monarchies.

Some particular instance of purchase and sale are decidedly interesting. In 702 of the Roman Empire, Julius Caesar purchased the area for his new forum, an extension of the old one, that made Pliny exclaim, "We wonder at the Egyptian pyramids, when Caesar, as dictator, spent one hundred millions of sesterces merely for the ground on which to build his forum." The sum of one hundred millions of sesterces, mentioned by Pliny and confirmed by Suetonius, corresponds to four million dollars; and as the area purchased by Caesar does not exceed ninety thousand square feet, it is evident he must have paid, on an average, $44.45 per foot.

They had traffic problems and municipal problems even in those far-away days; and the city plan was not unknown then.

THE NEW ROME

During the rule of Claudius, the successor of Caligula, little or nothing was done towards the enlargement or the embellishment of the palace of the Caesars. Nero, however, the successor of Claudius, conceived the gigantic plan of renewing and of rebuilding from the very foundations, not only the imperial residence, but the whole metropolis. The metropolis was crowded at every corner with shrines and altars and small temples which religious superstition made absolutely inviolable, and as the slightest work of improvement was fiercely opposed by private owners of property, and gave occasion to an endless amount of lawsuits, appraisals, and fights among the experts, he rid himself of all these difficulties in the simplest way. He ordered his favorite architects, Severus and Celer, to draw a new plan of the city, and to draw it according to the best principles of hygiene and comfort; then he caused an enormous quantity of wooden booths and tents to be secretly prepared, and ordered fleets of grainladen vessels to be kept in readiness to sail from the various harbors of the Mediterranean at a moment's notice.

Having taken all these precautions, and insured the success of his stratagem as far as human foresight could, Lanciani tells us, Nero set the whole city into a blaze of fire, and did it so neatly that although three of the fourteen regions, or wards, into which Rome had been divided by Augustus, were anihilated completely and seven for the greater part, yet not a single human life seems to have been lost in the gigantic conflagration.

Even in our age of progress, material improvement, and comfort, we cannot help admiring the profound wisdom shown by the two imperial architects, Severus and Celer, in designing and rebuilding the city. The straight line and the right angle were followed, as far as could be done in a hilly region, in tracing the new streets and avenues through the still smoking ruins. Hasty and irregular constructions were forbidden; the line of frontage of each new building had to be sanctioned and approved by one of the official surveyors. Large squares were opened in place of filthy, thickly inhabited quarters. The

height of private houses was not allowed to exceed double the width of the street, and porticoes were to be built in front of each one, to provide the citizens with cool, sheltered walks in case of rain or of excessive heat.

THE GOLDEN HOUSE OF NERO

Of the wonders of the Golden House of Nero, which had an area of about one square mile, it is enough to say that comprised within the precincts of the enchanting residence were waterfalls supplied by an aqueduct fifty miles long; lakes and rivers shaded by dense masses of foliage, with harbors and docks for the imperial galleys; a vestibule containing a bronze colossus one hundred and twenty feet high; porticoes three thousand feet long; farms and vineyards, pasture-grounds and woods teeming with the rarest and costliest kind of game; zoological and botanical gardens; sulphur baths supplied from the springs of the aquae Albulae, twelve miles distant at the nearest point; thousands of columns crowned with capitals of Corinthian gilt metal; thousands of statues stolen from Greece and Asia Minor; walls encrusted with gems and mother-of-pearl; banqueting-halls with ivory ceilings, from which rare flowers and precious perfumes could fall gently on the recumbent guests. More marvelous still was the ceiling of the state dining-room. It was spherical in shape, and cut in ivory to represent the constellated skies, and kept in constant motion by machinery in imitation of the movements of the stars and planets. The day Nero moved into this Golden House, he looked around and was heard to say "at least I am lodged like a man."

Outside the city of Rome was the district known as the Campagna, in which the aristocrats had summer homes.

No wonder that, at this stage of luxury, the price of elegant private mansions should have reached fabulous sums. Messala bought the house of Antonius for a sum corresponding to $165,000.00. Cicero gave for the house of Crassus $155,000,00; the house of Claudius had cost $655,000.00; and of Scaurus was valued at $4,425,000.00; and I am speaking of republican times. No wonder that the contractor for the maintenance of public drains should have required from M. Scaurus a security against any possible danger of the sinking of streets in the transportation of his columns and blocks of marble, so heavy were they.

CONCLUSION

True, we know almost nothing of property rights in pre-History days, but from the beginning of man's recorded actions, the thing in which we deal had a large part in his life and it brought about some of the earliest laws ever enacted. There has never been a period in the world's history, when real property has not had a large function, and as we look back and consider all these records we are impressed that man in those days was much as we are today. His domestic life, his activities, his ambitions, the whole scope of his human relations, brought him problems, such as you and I face.

And out of it all comes this to me—and maybe to you—one thing, one idea, one realization, that while human nature remains as it was in these early days and is today, man's home is or should be his castle, the center of all his aspirations, the realization of all his striving, its ownership the culmination of his effort, and that the chief dignity of your business and mine is that we are factors in the attainment of it.

The Appraisal Report

By AYERS J. DU BOIS, M. A. I.

AN appraisal report should not only state the conclusions of the appraiser, but it should also present a statement of the facts upon which he placed reliance, as well as a statement of the reasoning processes utilized in interpreting these facts and deducing conclusions from them. A report will reflect credit upon its maker, provided its contents reveal that he has made a thorough study of the problem, gathered data which are not only pertinent but also reliable and adequate, has relied upon sound, logical reasoning in arriving at his conclusions, and provided the report itself is a well-organized presentation of his analysis and a document which, by virtue of its attractive appearance, suggests to its reader that a careful, discriminating thinker appraised the property and submitted the report.

The report should be a document in which the appraiser has so marshalled his array of data and interpretations thereof as to lead the reader along the identical mental paths traversed by him in reaching his conclusions. Too often the "report" consists of merely a brief statement of the estimated value, unsupported by any data or analysis. Sometimes it is a ponderous document, but somewhat similar to a large inflated balloon; while it is big, it contains nothing more substantial than "gas." Some reports are so badly organized or executed that they lack force and effectiveness and fail to carry conviction.

There is much to be gained by a standardization of form of appraisal reports insofar as this is practicable. Obviously all reports cannot follow the same pattern. However, there are certain items which should appear in all reports and the arrangement and presentation of these items according to an approved pattern will aid materially in promoting orderly thinking and procedure by appraisers and in inspiring confidence in the conclusions stated in their reports.

Considerations regarding the appraisal report fall under two broad headings: (1) Format, i. e., size, style, make-up, etc.; and (2) Contents.

FORMAT

Under the heading "format," brief consideration is appropriate of matters which will determine whether or not the report is attractive in appearance and excellent in style. These include:

1. Quality and size of paper used.
2. Method of drafting or presentation.
3. Margins.
4. Headings.
5. Underscoring.
6. Capitalization.
7. Cover for the report.
8. Grammatical construction.

The Paper:

The paper used should be of excellent quality and sufficient weight so that it will withstand considerable abusive handling. The "crinkle" and "snap" of a high grade bond paper will convey a feeling of substantiality to anyone handling the report.

Page Size:

The page size should be such as to permit easy handling of the report and ready filing in standard-sized filing cabinets. The size should also permit an attractive presentation of data. Sometimes tabulations of data are such as to require sheets larger than those used in the balance of the report. These larger sheets can usually be of a size which will permit folding so

as to conform to the size of the smaller sheets. Probably in the great majority of cases a sheet $8\frac{1}{2}$ inches by 11 inches is to be preferred. This is the size in most common use for business communications and can be accommodated by practically all filing cabinets.

Presentation:

It hardly needs to be said that any formal appraisal report should be presented in typewritten form unless it is to be reproduced in quantity, in which case it should be produced by any of the methods commonly used for quantity production, such as printing, photostatic process, hectograph, lithotype, or other special processes. Sometimes when the pages are typed, the appearance is not neat or attractive due to erasures or poor typing—an inexcusable condition. Neatness and readability are indispensable.

Margins:

The left margins on the individual pages should always be wide enough so that when the pages are bound together in the assembled report no difficulty will be experienced in reading any portion of any page. Sometimes left margins are so narrow that words at the beginning of the lines are partially hidden because of the manner in which the sheets are bound together. A narrow margin should always be left on the right-hand side of the sheet, and, of course, only one side of the sheet should be used, unless the report is a printed one.

Headings:

It is always desirable to make use of headings in appropriate places. Titles and sub-titles make the report more readable and more useful by expediting ready reference to individual statements regarding specific points discussed in the text. Major headings can very well be centered on the page with reference to left and right margins, set forth in capitals and underscored. Sub-headings should be begun at the left margin, set forth in capitals and lowercase, and usually should be underscored.

Underscoring:

Generally, underscoring in the body of the running text is not desirable. Of course, exceptional conditions may make it desirable, but underscoring should be resorted to sparingly except in connection with headings and sub-headings.

Capitalization:

Occasionally emphasis may be desired and accomplished by capitalizing all the letters of a word or phrase or sentence. However, this practice, like underscoring in the body of a paragraph, should be the exception and should be avoided as far as possible.

Literary Quality:

All too often the grammatical construction in appraisal reports is of a poor quality. Such faults reflect adversely upon the maker of the report, inasmuch as they reveal the existence of ignorance of a type for which there is no excuse in this day when abundant opportunity is afforded enabling persons to obtain education in the use of words and the construction of sentences and paragraphs.

Some statements in reports may be grammatically correct but either meaningless or positively inadequate to convey the thoughts the appraiser had in mind. Certainly the appraiser should carefully select his words so that they will convey to the reader of his report the ideas intended to be transmitted. Furthermore, unless the report reveals that logical reasoning was utilized by the appraiser in analyzing and interpreting the data gathered, the reader of the report will not recognize the appraiser's conclusions as sound and worthy of reliance. Consider the report which

was filled with such ridiculous statements as this: "I certify that in making this appraisal it is in no way contingent upon the amount of the valuation."

Binding and Cover:

The finished report should be bound in a cover of durable material in such a way that it will not readily come to pieces. The cover should be attractive, and indicative of good taste and attentiveness to details on the part of the appraiser. Usually the size of the cover should be slightly larger than the sheets within it.

It is well to point out that the pages of the report should be numbered. It is a good idea, too, for the appraiser to have his name on each page, but printed in an inconspicuous manner. The title page should contain the appraiser's name, address, and telephone number. His name may here appear in bold type.

CONTENTS

The contents of the report and their arrangement will vary according to the purpose for which the appraiser is employed and according to the nature of the property being appraised. For example, if the appraiser is employed to ascertain whether or not an assessor's valuation for tax purposes is justifiable, the report will not only present data, and an interpretation thereof, for the purpose of showing whether or not the assessor's value estimate is reasonable in consideration of the net benefits arising from ownership of the property, but it will also give prominent place to data relating to other properties and their assessed values and tax burdens for the purpose of supporting the appraiser's conclusions. If the appraiser is employed to estimate the damages arising from the condemnation of a portion of a property by a political subdivision of a State, he will organize his report in a way best suited to the requirements he may have to meet in being examined and cross-examined as an expert witness in court.

Notwithstanding the fact that appraisal reports will vary in content and arrangement, there are certain things which should appear in any report, and there is an arrangement which is well suited to the needs served by most reports. Below is an outline of essential matters arranged in an order which is meritorious and which might well be followed by appraisers, except in cases where the peculiar nature of the assignment dictates the use of a different arrangement.

PART I—PREFACE

1. Title Page
2. Photograph of the property
3. Table of contents
4. Letter of transmittal
5. Qualifications of the appraiser
6. Summary of important conclusions

PART II—ANALYSIS AND CONCLUSIONS

7. Statement of the purpose of the appraisal and date as of which the value estimate applies
8. Legal description and street address of the property
9. Pertinent city data
10. Pertinent neighborhood data
11. Site data
12. Data regarding the improvements and equipment
13. Statement of the highest and best use for the site and of the program of utilization underlying the value estimate
14. Estimated replacement cost new of the property
15. Interpretation of the data
16. Underlying assumptions and contingent conditions
17. Appraiser's certification
18. Statement of value estimate
19. Signature and date of completion of the report

PART III—ADDENDA

20. Sales and listing price data, maps, graphs, exhibits, photographs
21. Alphabetical index

Page Numbering:

Pages of the division headed "Part I" above are best numbered by use of lower case Roman Numerals. In Parts II and

III, Arabic Numerals are most suitable. The body of the report really begins with Part II; hence the recommended use of Arabic Numerals beginning with "1" at this point in the report.

PART I

It will be noted that Part I contains matters which make the report more serviceable. It contains no essential data, no analyses, no explanations. It serves to place quickly before the reader the conclusions which are to be presented in the subsequent portions of the report and which result from the analyses contained in Part II. Thus the necessity for searching for the conclusions which are "buried," as it were, in the heart of the report, is avoided.

Title Page:

Picking up an appraisal report to read it is somewhat like approaching an occupied house to inspect it. Your first impression of the house (appraisal report) is gained from the outside (from the cover). As you stand at the door you wonder what the room arrangement and furnishings (the data and arrangement), and the people inside (the appraiser's ability and reliability) are like. As the door is opened (you turn back the front cover) you get your first glance inside (the title page greets your eye) and immediately you begin to draw conclusions regarding these matters. This first glance creates a strong impression and the occupant (the appraiser) should have his house in order, so that the impression will be favorable. For this reason, the title page should be carefully designed and neatly executed. It can well be specially designed for the purpose to be served. It may properly contain the appraiser's "trade mark." Frequently the appraiser's report sheets or letterhead are suitable for use.

The title page should have very little upon it. Its main purpose is to reveal three things: (1) the nature of the document within the report covers, (2) who made the report, and (3) the date as of which the value estimate applies. The illustration contains acceptable copy for a title page.

Appraisal Of

THE MAXWELL BUILDING

425 Broadway, America City, Calif.

By

AYERS J. DU BOIS, M.A.I.

1501 Vermont Ave., Washington, D.C.

As Of

April 1, 1936

Photograph of the Property

By placing a photograph of the appraised property immediately after the title page, the reader's mind is at once enabled to visualize the subject of the report and he is thus better fitted to grasp the significance of the facts and viewpoints about to be presented to him.

The photograph should neither flatter the property nor picture it in a way so that it appears less favorably than it should. Insofar as it is possible, the picture should give equal emphasis to both favorable and unfavorable aspects which would be apparent to an observer at the actual site. If possible, the photograph should show both the front and a side of the building, and should show the elevations of these sides in correct perspective and correct relation to a horizontal line. It is remembered that an appraiser in one case presented a photograph which showed the street rising sharply from left to right side of the print, and the buildings leaning sidewise at an angle out-doing the famous

"Leaning Tower of Pisa," By way of caution, he labeled the picture: "No slope —camera crooked."

Elsewhere in the report other photographs may present different views of the property as well as reproductions of adjoining properties. The value of photographs in connection with word pictures, such as appraisal reports contain, is recognized universally.

Table of Contents:

The table of contents presents a list of the contents of the report either in the order in which they appear or in alphabetical order. The list should contain the names of the essential parts of the report, e.g., letter of transmittal, qualifications of appraiser, etc., and also paragraphic headings and sub-headings. This table itself may be effective in inspiring confidence in the reader. This will be the tendency if the list, by its subjects, reveals that the appraiser's investigations and analyses were not superficial but broad and adequate.

Letter of Transmittal:

This letter formally presents the report to the person for whom it is made. It should be drawn up in accord with the best approved practices followed in business correspondence. It may be a brief or lengthy document according to the requirements of the case. There are certain essentials which it should embody, however.

The two most important purposes of the letter of transmittal are: (1) to formally transmit the report, and—most important of all—(2) to place the appraiser's conclusions before his client in a way so that the latter will know the outcome of the appraiser's analyses without having first to read the detailed report.

The minimum essentials of the letter of transmittal are these:

1. Date of the letter and salutation.
2. The purpose of the appraiser's employment.
3. Legal description and street address of the property involved.
4. Statement that inspection of the property and necessary investigations and analyses were made by the appraiser.
5. Statement that the letter accompanies a report of so many pages.
6. Date as of which the value estimate applies.
7. The value estimate.
8. The appraiser's signature.

The letter may also contain a discussion of conclusions of the appraiser aside from the value estimate, such as the estimated rental value, operating costs, net income, and so on.

One of the most important things to do in composing the letter of transmittal is to set forth the value estimate on a line by itself well apart from the context so that it will be the most prominent item on the page. The statement of estimated value should not be like a needle in a hay-stack but rather like an air-way beacon on a clear moonless night.

Qualifications of The Appraiser:

An excellent place for the appraiser to place a statement of his qualifications is immediately next to the letter of transmittal. In the letter he has stated his value estimate. Now let him present to the reader of his report the evidence that he is qualified by education, technical training, and practical experience to do appraisal work, and, more particularly, to estimate the value of the specific property involved.

Matters such as the following are properly included in a statement of appraisal qualifications:

1. Place and length of residence in the community.
2. Business experience—nature and duration.
3. Education—general and technical.
4. Trade or professional organizations in which membership is held.
5. Responsible offices held in business enterprises or professional organizations.
6. Important appraisal assignments handled.
7. Articles or books written and published.
8. Public addresses delivered.

April 1, 1936

Mr. John Smith
500 N. Sixth Street
Long City, California

Dear Mr. Smith:

In accordance with your request and for the purpose of determining the value of your property consisting of a one story single-family residence located at 500 N. Sixth Street, Long City, California, I have inspected the said property and made careful and thorough investigations and analyses of matters pertinent to the estimation of its value.

The appraised property is legally described as follows:

> Lot eighteen (18), Block 46, Tract 4622, as per map recorded in Book 62, Page 71, of Maps, Records of Big County, California.

The accompanying report of eleven pages describes in detail the method of appraisal and contains data gathered in my investigation.

In my opinion, as of April 1, 1936, the value—that is, the price which a well-informed buyer acting intelligently, voluntarily and without necessity would be warranted in paying, and a well-informed seller acting intelligently, voluntarily and without necessity would be warranted in accepting—of the property described above is

EIGHT THOUSAND DOLLARS ($8,000)

Respectfully submitted,

Henry Jones, M.A.I.

9. Courts in which testimony as expert witness has been given.
10. Educational work participated in.

The listed qualifications may vary for different reports. In one case the appraiser may wish to emphasize some particular matter which especially well indicates possession of unusual qualifications to solve the problem involved. Of course, lists of qualifications may be voluminous and still be meaningless; for unless intelligent analysis and reasoning power of a high order are evidenced by the statements and deductions in the body of the report, it is obvious that good, sound judgment is lacking irrespective of an impressively long experience and lengthy list of purported qualifications.

Summary of Important Conclusions:

This summary serves three purposes: (1) Being placed in the preface of the report, it presents in brief form outstanding conclusions bearing on the valuation about which the reader of the report might desire to be informed without having to search them out in various places in the body of the document; (2) it enhances the effectiveness of the report by assembling in one place important conclusions which can thus readily be compared to discover significant relationships between them which support the reasonableness of the value estimate; (3) it is a valuable aid to the appraiser for ready reference to refresh his memory if he is called upon to testify in court regarding his conclusions and opinions.

This summary may well contain such items as these:

1. Date as of which the value estimate applies.
2. Total replacement cost, new, of improvements, and cost per square foot and cubic foot.
3. Age of buildings and estimated remaining economic life.
4. Gross rental value, 100% occupied.
5. Gross expectancy, ensuing 12 months.
6. Net expectancy (income), ensuing 12 months.
7. Capitalized value estimate.
8. Estimated market price obtainable.
9. The estimated value.
10. Distribution of total valuation between land and improvements.

Part II—Analysis and Conclusions

The heart of the report is comprised of the items listed under Part II. In this part the appraiser figuratively invites the reader to search his (the appraiser's) thoughts and judge their quality and worth, for every statement made in Part II evidences some degree of discernment, intelligence, discrimination, thoroughness, reasoning power, and sound judgment—or the lack of them—on the part of the maker of the report. How important it is then, to devote careful thought to the formulation of this portion of the report!

Purpose and Date:

Appraisers' services are utilized for various purposes. The immediate purpose of employment in any case will largely determine the nature of the data which must be assembled and the nature of the appraiser's report. By clearly stating the purpose of the investigations and analyses, the objective of the report is placed before the reader and he is thus made able to follow better the appraiser's presentation, to understand why certain steps were taken, why certain data were gathered, and why certain classes of the assembled data were given greater importance than others. Furthermore, by stating the purpose of his study, the appraiser reveals that he understood the problem which was to be solved by his efforts and consequently knew what he should do to attain the end sought.

If the appraiser's services are sought in connection with litigation, it is especially important that he state the purpose of his

investigation; for the law may throw certain limitations around his procedure. Sometimes legal requirements necessitate procedure which is not in accord with most advanced appraisal concepts. In such cases, the appraiser protects himself against criticism by stating the purpose of his employment.

For example, he may be employed to estimate the amount which should be awarded to a property owner as compensation for damages arising from the taking of a portion of his property in an action in eminent domain. Possibly, many other properties are involved in the same proceeding, and the procedure in estimating amounts of damages may consist of estimating the average value per square foot of the site in each case and multiplying this average by the number of square feet taken by the condemning party. This practice may be erroneous—as it is in the case of residential or business property—but the appraiser may, nevertheless, be obliged to follow it because the law approves of the practice and because his client would suffer unjust discrimination if a different procedure were followed in his case but not in the cases of the others affected by the same proceeding. By stating the purpose of his employment, the appraiser reveals that his procedure was determined by the legal necessities of the case rather than by his own concepts of what was proper. Thus he protects himself from possible criticism.

Date:

It is very important to state the date as of which the value estimate applies. Values of real estate are not stable—and can not be "stabilized"—but change as time passes and economic forces bring about different conditions and relationships. Therefore, the date as of which the appraiser's value estimate was made should be stated so that at a later date no one can assume or claim that the estimate applied as of some other date, and make improper use of the report. It is for the protection of the maker of the report as well as for purposes of information that this date should never be omitted.

Furthermore, an appraisal report may be made at a time years later—or perhaps sooner—than the date as of which the value estimate applies, and in the absence of an appropriate statement, it will appear that the value estimate applies at the date the report is transmitted. This may result in injury to innocent parties who are shown the report and do not know of the omission.

Legal Description:

So that there can be no doubt as to just what property is being appraised the legal description should be included in the report. The street address, city, and state should also be included along with the legal description for the convenience and aid of the reader of the report in definitely identifying the property. It is well, furthermore, to describe the location of the property by naming the streets between which it lies, and stating upon which side of the abutting street it lies. Thus, the description might read:

> "The property appraised is situated in Kingsville, Illinois, on the east side of Rush Street between Lincoln and Western Streets. It is known as 4127 Rush Streets and is legally described as lot seventeen (17), block forty-two (42), Tract 780, as per map recorded in Book 60, Page 35, of Maps, Records of Clark County, Illinois."

City Data:

Under this heading important facts pertaining to the city and geographical region and having a bearing upon the problems dealt with by the appraiser should be stated. It is recognized that regional and

city-wide conditions and trends have a bearing upon valuation. For example, if industrial enterprises are being attracted to the region, if the city is experiencing a healthy and continuing population growth, or if there is a prospect of the closing down of some of the industrial plants in the community, these matters should be stated as they are important valuation data. Matters pertaining to the future of the property will depend to some extent upon the prospects of the city; hence city data of pertinent character strengthen the appraiser's analysis and lend added weight to his conclusions.

Inclusion of statistical information about the city and region is sometimes desirable. This may include chronological tabulations of population, bank debits, school enrollment, water and electric meters in use, foreclosures of mortgages, and so on. If such information is included, it may be found best to place it in the back of the report among the addenda. Under the heading "City Data" significant facts or conclusions deduced from this statistical information may be set forth.

In some cases very little need be said about the city or region. However, the appraiser should constantly remember that if his conclusions are well supported this will reflect credit on him and enhance his reputation. If his report is to be submitted to a non-resident of the community in which the property lies, then the need for including city data is greater than would otherwise be the case.

Neighborhood Data:

From consideration of city data the attention logically proceeds to neighborhood data. This class of data is very important inasmuch as the value of any property is likely to be as dependent—or more so—upon the environment of the property as upon the physical characteristics of the property itself.

Under this heading matters such as the following are discussed:

1. Physical characteristics of the neighborhood.
   a. Buildings: use types, sizes, replacement costs, ages, physical condition.
   b. Amount of vacant land.
   c. Uses to which vacant sites may be put.
   d. Possibility of encroachment by non-conforming uses.
   e. Public utility services available.
   f. Municipal services: fire and police protection, garbage collection, etc.
   g. Transportation facilities.
   h. Schools, stores, parks, playgrounds, churches, etc., available.
   i. Topography drainage, etc.
2. Social characteristics of inhabitants of the neighborhood.
3. Financial characteristics of inhabitants of the neighborhood.
4. Prospects of infiltration by inharmonious racial groups.

In this part of the report the neighborhood should be fully and clearly pictured to the reader so that he will be able to visualize the nature of the environment in which the property is located.

Site Data:

At this point in the report specific information regarding the property under appraisal may be presented. A word picture of the city and the neighborhood has been given. Now the property should be fitted into the picture.

First in order are descriptive data regarding the site and its possible utilization. These data should include the following:

1. Physical characteristics of the site: Position (corner or otherwise), frontage, depth, shape, area, topography, surface soil and subsoil.
2. The specific nature of private restrictions, reservations, easements, and rights-of-way.
3. Zoning regulations, fire and building ordinances, and other legal limitations surrounding the use of the site.

Sometimes a plat showing the geometrical characteristics of the site is sufficient

—or necessary—for informative purposes. Usually such a plat should appear in the report either at this point or in the addenda.

Data Regarding Improvements and Equipment:

Next in order is a full and adequate description of the building improvements and equipment under appraisal. The purpose of the description is twofold: (1) to inform the reader, and (2) to protect the appraiser by definitely identifying the physical property included in his appraisal. Obviously, the value estimate will not be significant to a reader of the report unless he knows what property is the basis of the estimate. Again, if the description is incomplete, the appraiser may find himself at a later date at a disadvantage if his estimate is attacked, as he will not be able to prove by the report itself just what property he valued. This may readily come about if a construction project is involved and the report does not embody—actually or by reference—plans and specifications of the proposed improvements.

The description should include the following:

1. Information as to the physical characteristics of the building: Width, depth, height, shape, materials used, number of rooms, sizes of rooms, floor area, cubic volume, mechanical equipment, and so on.
2. Age and condition of the structure and its equipment.
3. Efficiency of the design and mechanical equipment.

Much of the information about the building can be best presented with the assistance of drawings and photographs showing the geometrical characteristics, floor plan, and elevations. Sometimes a very detailed description is essential and at other times a brief and simple one suffices. In any event, after presenting this class of data in the report, the word picture of the property and its setting is complete. Significant conclusions can next be drawn.

Highest and Best Use:

The next step in the analysis is to indicate the nature of the highest and best use for the site involved and to describe the program of utilization which underlies the value estimate. Value arises from the profitableness of use. The most profitable use—that is, the use which develops the greatest land value—is the "highest and best" one. The appraiser should record his opinion on this matter, and state that his value estimate is predicted upon the devotion of the property to this program of utilization, provided this is the case.

However, if for some reason the property cannot be so used, then the report must indicate this and state what use-program does underlie his value estimate. So, he might conclude that the highest and best use is for commercial purposes, but that, due to the presence on the site of an apartment building having a substantial period of economic life ahead of it, the site cannot be utilized for any purpose except that to which it is being put; and therefore, his value estimate is predicated upon the continuation of the existing use for the remaining economic life of the building involved, after which he assumes a commercial utilization may be resorted to.

Unless some statement is made on this subject, it may be concluded that the appraiser gave no thought to it. Such a conclusion would undermine confidence in his report and his ability.

Estimate of Replacement Cost:

At this point the estimated cost of replacement in new condition of the property exclusive of the land should be presented. Details showing how the estimate was made can be omitted here if they are provided in an exhibit in the last part of the

report. It is well to present not only an estimate of the total cost of replacement but also of the unit cost if such a unit cost is significant for use in making comparisons. Failure to include a replacement cost estimate will subject the appraiser to possible criticism; it may then be assumed that he was ignorant of replacement cost and failed to consider it in making his appraisal—a serious error in almost any case.

Interpretation of the Data:

The next part of the report is, perhaps, the most important. Certain data have been presented regarding the property, its surroundings, the city and region, and about replacement cost of the improvements. Other data, such as information regarding sales transactions and listing prices of other properties, gross rental value, net income expectancy, and capitalized value, should be included in the addenda. All these data must now be interpreted.

The significance of the replacement cost estimate, of sales prices of other properties, and of the indicated capitalized value should be pointed out. Justification should be made of any estimates relating to market price obtainable for the property, gross rental value, occupancy ratio, operating, maintenance, and management expense, remaining economic life, capitalization rates, and so on. Market conditions, supply and demand factors, local, national, and international business and economic conditions, and other forces and conditions affecting value estimates should be discussed insofar as they have a bearing on the value of the property which is the subject of the report.

The text of the report under this heading should be a convincing, logical analysis of the data. It should lead the reader step by step right up to the appraiser's conclusion, showing why one bit of information is entitled to more weight than another, why others are almost totally lacking in significance, why the reported conclusions are reasonable and sound, and why contrary conclusions would be unreliable and unsound.

Unless this section of the report is a clear, logical analysis, the report will not be convincing. Lack of intelligence and sound judgment on the part of the appraiser, as well as ignorance or inaptitude in phrasing sentences, will make themselves evident here. That this is true is seen by quoting from an actual report in which the appraiser used the heading, "Complete and Definite Reasons for the Capitalization Rate Selected"—although nowhere in the report was there a capitalization analysis—and then stated: "Determining the value by capitalization as no income is realized and being entirely used for a homesite, the building is and has been in use beyond the period of time allotted to buildings of its class." What an analysis!

The analysis of the data should terminate with a statement containing the appraiser's conclusion.

Underlying Assumptions and Contingent Conditions:

In every appraisal there are many underlying assumptions. For the appraiser's protection and for the information and protection of readers of his report, important assumptions should always be expressly stated. Among such matters are these:

1. That the legal description furnished to him is correct.
2. That the title to the property is good.
3. That there are no incumbrances or defects of title other than those mentioned in his report.
4. That the property is free and clear of all liens.
5. That the property will be efficiently managed and properly maintained.
6. That certain opinions or estimates (which are properly identified) furnished by other

individuals and used in making the appraisal are correct.

There are also contingent conditions subject to which the appraiser usually submits his report. It is very important that he protect himself and inform the readers of the report by stating these conditions. Among them might be the following:

1. No guarantee is made as to correctness of estimates or opinions furnished by others and used in making the appraisal.
2. No liability is assumed on account of inaccuracies or errors in such estimates or opinions.
3. No liability is assumed on account of matters of a legal character affecting the property, such as title defects, encroachments, liens, overlapping boundaries, and so on.
4. That he has not verified certain information (which he properly identifies) and assumes no responsibility in connection with its correctness.
5. That the distribution of the total valuation between land and improvements applies only under the program of utilization and conditions stated in the report, and is invalidated under other programs of utilization or conditions or if used in making a summation appraisal.
6. That no survey was made of the property.
7. That no right is given to publish the report without the consent of the maker, and then only in its entirety.

Appraiser's Certification:

Where an appraiser has a specially designed form embodying his certification, he will probably desire to place the form at the front of the report in a prominent position. This, of course, is entirely satisfactory. If no special form is used, the certification can well appear at this point in the report.

Below are matters which should be included in the certification:

1. That the appraiser has no interest, present or contemplated, in the property (or else he discloses the nature of his interest if he has one).
2. That neither the employment to make the appraisal nor the compensation are contingent on the amount of the valuation reported.
3. That the appraiser personally inspected the property.
4. That according to the best of the appraiser's knowledge and belief all statements and information in the report are true and correct and no important facts have been withheld or overlooked.
5. That the appraisal has been made in accordance with the standards of practice of the American Institute of Real Estate Appraisers (required if the appraiser belongs to that Institute.)

Statement of the Value Estimate:

Next should appear the statement of the appraiser's value estimate. In making the statement, it is a good plan to incorporate into the statement exactly what the appraiser means by the descriptive terms he uses. That is, if he reports the "fair value," "market value," "warranted value," or just the "value" of the property, he would do well to explain the meaning of the term *as he uses it*. Thus he might state something like this: "In my opinion, as of April 1, 1936, the value (i. e., the price which a well-informed buyer acting intelligently, voluntarily, and without necessity would be warranted in paying and a well-informed seller acting intelligently, voluntarily, and without necessity would be warranted in accepting) of the property described, as per the assumptions and limiting conditions stated in this report, was

FIVE THOUSAND FIVE HUNDRED DOLLARS

($5,500.00)."

In this connection it may not be inappropriate to direct attention to the difference between "value" and "market price." "Market price" is the price obtainable in the market at the time of appraisal from buyers who are typical of the market. It does not go behind the acts of the buyers to ascertain whether or not the buyers are well-informed when making the purchases, are acting of their own free will without the use of undue influence or high sales pressure, and whether or not they are acting without the force of compelling circumstances peculiar to their own affairs, as distinguished from those of all other

persons. On the other hand, the determination of value presupposes a price which is warranted in view of the future benefits which are in prospect, and presupposes a buyer and a seller who are well-informed and act intelligently, voluntarily, and without necessity.

By defining what *he* means by "value," or whatever term he uses, the appraiser leaves no room for doubt in the mind of the reader as to the exact significance of the amount reported.

Signature and Date of Completion of the Report:

The appraiser's signature should appear immediately under his value estimate, notwithstanding the fact that it also appears elsewhere in the report, as, for example, on the letter of transmittal. Opposite the signature, the date of the completion of the report—which may be different from the date as of which the value estimate applies—should be recorded.

PART III—ADDENDA

The rest of the report should contain certain data and exhibits which need not be placed elsewhere in the report, and—if a bulky report—should conclude with an alphabetically arranged index of important matters contained in the report. Under this heading will be such items as these:

Plans and elevations of buildings.
Specifications (general or detailed) of buildings.
Plot plan and survey (if any).
City and neighborhood maps.
Abstracts of leases.
Schedules of gross and net rental expectancies with estimated deductions for vacancies, rent losses, operating costs, maintenance and repair and replacement costs, and management costs.
Capitalization of net expectancy.
Justification of capitalization rate selected.
Detailed replacement cost estimate of improvements in new condition, and indirect construction costs.
Supporting data such as sales information, listings, assesed values, and so on.
Desirable repairs, replacements, or alterations which appraiser recommends.

GENERAL

It is important to identify in appropriate places in the report any estimates or reports furnished by others for use in the appraisal. These might include reports dealing with legal, financial, accounting, geological, or engineering matters. The sources of such reports should be disclosed and the extent to which they were relied upon indicated.

Another matter which it is well to stress is the ridiculous nature of the practice of some appraisers in reporting value estimates in odd dollars, or even in fractions of a dollar. It is admitted that real estate appraising can never be an exact science and that value estimates cannot be purged of inaccuracy. It is, therefore, foolish to report valuations except in round figures. A report containing a value estimate of $4,179.42 loses weight by reason of the ridiculous character of the estimate itself. All estimates should be rounded off in the finally stated valuation.

In conclusion, it is again emphasized that the appraisal report is an index of the appraiser's intelligence, learning, skill, efficiency, proficiency, reliability, and judgment. Therefore, if he wishes to avoid jeopardizing his standing and his future, he will use care in making up his appraisal reports.

How Mississippi Is Solving Its Assessment Problem

By W. H. WALLACE

During the past year or two we have been hearing from various sources about the big assessment job the State Tax Commission has undertaken down in Mississippi. While the JOURNAL is not ordinarily concerned with local problems, the present acute interest in property taxation serves to bring an organized program of this kind into national significance. We, therefore, called upon Mr. Wallace, who, as the Valuation Engineer of the Commission, carries the responsibility for the technical phases of the work, to tell us the story. We feel that his able presentation of the problems involved and the practical methods being carried out in their solution should be an inspiration to many of our State Tax Commissions and of real interest to appraisers.—Ed.

THE Mississippi State Tax Commission has attracted more or less national attention since 1932, when the State in desperate financial condition, with an empty treasury, adopted a retail sales tax, and persuaded one of its ablest administrators to assume the offices of Chairman of the State Tax Commission and Assistant Director of the Budget, in an effort to restore the State's credit. How well this has been accomplished is suggested by the fact that on January 1, 1936, the treasury had an available cash balance of almost $1,700,000, after large emergency appropriations, and within the past month $1,500,000 of State bonds bearing 2¼ per cent interest have been sold at a premium above par value. At the same time a reduction of 37½ per cent in the State's property tax rate has been made, notwithstanding greatly reduced assessable values of property as a whole.

The financial emergency of 1932 and the necessity for its remedy had the effect of bringing about changes in the State's tax administration that long had been recognized as desirable, but which heretofore had been subordinated to political considerations. The action by the legislature and governor was to turn over to an exceptionally competent man, free from political ambitions and commitments, practically full responsibility for the administration of the State's revenue program with authority to employ such help as he might deem necessary for the work within the limits of a rather liberal appropriation.

Probably no other man in the State had the confidence of the people and of all political factions as did Alfred H. Stone, who was chosen for the task, and certainly none was better qualified. Mr. Stone, a native Mississippian, had gained national recognition as an economist, although his adopted vocation was that of cotton planter on one of the finest estates in the Mississippi Delta. He also found time to serve as an active director in the Federal Land Bank and as vice-president of the Staple Cotton Cooperative Association.

THE COMMISSION ORGANIZATION

The State Tax Commission was created by act of the legislature in 1916, and consists of a Chairman and two Associate

Commissioners. The office of Chairman requires full time of the occupant, but the Associate Commissioners are only required by law to give one day per month to their duties. The offices of Associate Commissioners would have been abolished by legislative enactment in 1932, but were retained at the express request of Mr. Stone; and in 1934 when Associate Commissioners were appointed for a new term, capable men were found who were willing to devote the greater part of their time to the offices in assisting the Chairman in his multitudinous duties, although the salaries apportioned to the offices by the legislature had not been increased. The present set-up of the Commission comprises Alfred H. Stone, Chairman, who is ex-officio Tax Commissioner, charged with collecting nine different state taxes as follows: Sales, Income, Franchise, Amusement, Tobacco, Malt, Beer and Wine, State Wide Privilege, and Estate; Bruce VanZandt, Ad Valorem Commissioner, in charge of all Property tax matters; and John F. Frierson, Resident Commissioner, who devotes much of his time to Income and Franchise tax matters and to the Commission's general activities.

The policy adopted and pursued by the Commission and which can be credited with its unusually successful dealings with taxpayers and the public generally, can be stated best in the words of the Chairman.

"It (the Commission) is definitely a non-political, impersonal, business institution, functioning solely in the interests of the people as a whole. Its contacts with taxpayers and with the general public are open and above board. Its affairs are regularly audited by an independent, efficient, public accounting firm, and the results of these audits are submitted to the Governor and the Legislature and published to the world. It constantly invites criticism, suggestions, inquiries and investigation. In the discharge of its duties the Commission needs and desires and earnestly asks the support and cooperation of the public at large and particularly that of the taxpayers whom it serves.

In dealing with the taxes of the people, which are the revenues of the State, ignorance ceases to be mere vacuity of mind and begins to assume the sinister aspect of a social crime. There can be no effective solution of any human problem which is not grounded in a thorough comprehension of its basic facts. This is particularly true of problems of taxation.

We would first emphasize the fact that we operate under no set formula or rule of thumb. About the only rule we have is the rule of reason. Our nearest approach to a formula may be described as giving the taxpayer a break. We assume that our taxpayers are honest, and that they will meet their just obligations to the State, if assured a square deal and sympathetic treatment from the State in return. We have adopted a policy of cooperation, rather than coercion, in our contacts and relations with the taxpayers of the State. We do not use the word *enforce* in our administration. When the present Chairman of the Commission announced this policy, on assuming office in 1932, it was received with considerable skepticism. But it has worked to the satisfaction of our people, and that, probably is a reasonable measure of success."

The Functions of the Commission

The successful administration of a retail sales tax for the first time in the history of this country has served to center attention on that phase of the Commission's activities, particularly when other states in need of additional revenue were considering the adoption of similar measures. That the present Commission has initiated a new policy, for this State at least, in dealing with assessments of general property has not been so widely recognized. For one thing, the general methods followed with respect to property assessments have been in use for a long time in some of the other states. But the extent of cooperation received from and accorded the taxpayers and many of the local taxing officials seems somewhat unusual, and is attributable to the new policy.

The general property tax, sometimes referred to as Ad Valorem tax, yields at present approximately 23 per cent of the State's revenues and about 62 per cent of the counties' revenues. It is the most important single source of tax within the

State. Until the year 1935 its yield was greater than that of any tax coming direct to the State, but because of reduced rates and the exemption of homesteads it has dropped below the sales tax which now yields about 33 per cent of the State's income. The total assessments on which the general property tax for the year 1935 was collected were as follows:

Real Estate	$376,425,468.
Personal Property	80,721,029.
Railroads and Utilities	89,259,465.
Total	$546,405,962.

The Tax Commission, under the law, does not assess general property other than that which belongs to railroads and other public utilities. It has equalizing functions only, and these are performed by the Commission acting as a whole. Concerning this the law reads as follows:

"It shall be the duty of the Tax Commission to carefully examine the recapitulations of the assessment rolls of the counties, when received, to compare the assessed valuation of the various classes of property in the respective counties, to investigate and determine if the assessed valuation of any classes of property in any one or more counties of the state is not equal and uniform with the assessed values fixed upon the same classes of property in other counties of the state, and to ascertain if any class of property in any one or more counties is assessed for less than the true value of the property. The Commission shall have authority to adjust and equalize the same and to require property to be assessed generally at its true value."

The necessity for such equalization is evident when it is considered that the State itself collects a tax on all property situated in eighty-two counties, and the assessments of property in each county are made locally.

Relationship of the Commission to the County Assessors

Under the law the assessment of all property in a county other than railroads and other utilities, is made by the county assessor who is an elected official. When the assessor's roll is completed, it then becomes the duty of the county board of supervisors, which also is elected locally, to equalize all individual assessments. Section 112 of the State Constitution requires that "taxation shall be equal and uniform throughout the State" and that property shall be taxed "in proportion to its value." Assessments must be made "under general laws and by uniform rules according to true value."

After the assessors and boards of supervisors have completed the local assessing and equalizing duties, a recapitulation of the county tax rolls is sent to the State Tax Commission. These recapitulations do not show individual assessments, but only the totals for various classifications of property in the county, such as cultivatable land, uncultivatable land, improvements, machinery, etc. It is from such meager information that former Tax Commissions have attempted to equalize assessments "to bring about equality and uniformity of the assessments of property throughout the State."

The only changes that the Tax Commission is permitted to order, under the law, are that particular property classifications in a county be raised or lowered by a given percentage; and the boards of supervisors then are supposed to adjust the individual assessments so that the total will equal the figure ordered by the Commission. Even if the Commission has knowledge of gross inequalities in individual assessments, it is legally powerless to order changes in them.

Securing Information for Equalization

Tax rolls and recapitulations prepared in the foregoing manner have provided almost the only tangible information from which a Commission could reach conclusions regarding the ratio between the

amount at which general property was assessed, and its true value. But definite knowledge concerning these assessment ratios is a prerequisite to proper equalization and to the proper treatment of those properties that are assessed by the Tax Commission.

It may be asked why it is that when the State Constitution and law require property to be assessed at full value, the Tax Commission equalizes assessments at less than full value. This question has been passed upon by the courts in the case of *Knox vs. Southern Paper Co.*, 143 Miss. 870; 108 So. 288. In its decision the court stated that it is common knowledge that assessment officers systematically and universally assess property in the State at a lower level than its true value. However, when either of the two principles, one, the assessment of property at its true value as required by the Constitution, or the other, the equalization of assessments, must be sacrificed in respect to each other, it must be the assessment at true value which must go. Otherwise, the taxpayer would be deprived of equal protection of the law guaranteed by the Federal Constitution, Amendment Fourteen.

Thus, when the present Commission took office, one of the tasks with which it was confronted was the equalizing of assessments of all property throughout the State, and in line with its attitude and announced policy this problem could not be passed over lightly, but required equitable and proper solution. The Chairman rightly asked, "How can one equalize two unknown quantities, or even a known with an unknown quantity? The obvious answer is that one can't. Before true equalization can be accomplished all quantities dealt with much be known. The logical conclusion was that, in order to function properly, the Commission must have as much information as possible concerning the quantity and value of all classes of property throughout the State.

Another reason why such information was necessary was because the Tax Commission itself assesses the property of railroads and other public service companies, the law relative to this reading in part as follows:

> "The members of the State Tax Commission are constituted state assessors of railroads and other public service corporations, and they shall * * * * * assess the property of railroads, telegraph, telephone, sleeping car, express, electric power and light companies, and other public service corporations liable to taxation in the state, affixing its true value so that such property shall bear its just proportion of taxation, taking into consideration the value of the franchise and the capital engaged in the business in this state; and the state assessors of railroads and other public service corporations may adopt other and further rules necessary and proper to ascertain the value of property to be assessed by them."

In addition to making the assessment, the Commission must apportion this assessment, between the several counties and to the municipalities and taxing districts therein, in the proportion that the property therein located bears to the entire value of the property of such public utility; and with regard to the properties of companies located in more than one state, the assessed values thereof are to be apportioned in such manner as will fairly and equitably determine the principal sum for the value thereof in the State, and after ascertaining such value, it is to be apportioned to the respective counties, municipalities, and taxing districts in the manner of other utility properties.

The properties thus assessed comprise thirty railroads operating 5,390 miles of main track and sidings, together with twenty-eight other public service corporations which in the aggregate operate approximately 1,000 miles of natural gas pipe lines and numerous gas distribution systems, 3,500 miles of telegraph lines, 5,000 miles of telephone lines, 3,300 miles

of electric transmission lines with distribution systems in most of the cities and towns, express mileage over 3,700 miles of railroad, bus mileage over 2,500 miles of public highways, numerous water works systems, and miscellaneous properties such as ice plants and cotton gins. The Commission also assesses the Pullman Company and all concerns owning refrigerator and tank cars that operate over the railroads in the State.

Prior to the time that the present Chairman assumed office in 1932, the Commission was so circumstanced as to be compelled to deal with assessments of such properties without adequate knowledge as to the basic accuracy of the assessment figures returned, either as a whole or as to their composition. It was without technical assistance or trained personnel for examining the properties and investigating and analyzing the various factors that determined their value. However, considering the information available, an exceptionally good job, for the most part, was done, as subsequent tests have demonstrated.

The Valuation Department

Appreciating the necessity of having at hand reliable information concerning the properties which it assesses, and with funds available for the first time to undertake this in a small way, the Commission in the latter part of the year 1932, established a Valuation Department consisting of a valuation engineer and one assistant engineer. This was later increased to its present size by the addition of another assistant engineer and an appraiser of merchandise and commercial equipment. Each member was chosen because of his knowledge concerning certain types of property in order that the department would be sufficiently rounded out to handle the valuation of any kind of property with which the Commission has to deal. While for many reasons a larger staff would be desirable, there are no funds to permit its enlargement. Therefore the present organization endeavors to function to meet the immediate needs of the Commission, and to secure the maximum of information with the minimum of labor and cost, and above all, the minimum of inconvenience to the people with whom it deals.

The small size of the Valuation Department and its ultimate objective of determining the approximate value, at least, of all property in the State, in sufficient detail to be useful to the Commission in its equalization functions, together with a close estimate of the value of the property of each railroad and other public service corporation for assessment purposes, appear to be disproportionate. In fact, this program could be regarded as impossible of fulfillment under less favorable circumstances and without the cooperation and encouragement of the property owners themselves. But, in view of what has been accomplished to date, it is not unreasonable to anticipate that the work can be carried to successful conclusion.

Already the buildings, machinery, and equipment of practically all of the industries in the State have been inventoried and appraised at cost of reproduction less depreciation, and merchandise stocks and store furniture and fixtures in 42 out of a total of 82 counties, representing about two-thirds of such property in the State, have been appraised. Also, all of the land, timber, buildings, and personal property in one county have been inventoried in detail and appraised. It is not proposed immediately to enter into so much detail in other counties, but it is hoped to secure good cross sections of the property in these counties on which to base estimates of value.

The valuation of the railroads and other

public service properties, in necessary detail, and within a reasonable period of time, alone would have been an almost impossible task for the Valuation Department without the cooperation and assistance of the companies themselves. This was realized before this work was commenced, so the efforts of the Commission and of the Valuation Department were directed first toward securing such cooperation. Naturally a project of this nature was received with considerable skepticism by the companies concerned, since it was new in this region and new to many of the company officials. Obviously, if misinterpreted or improperly used, the information which the companies were requested to furnish, might, at the very least, result in costly litigation. However, relying on the good faith of the Commission, one concern after another decided to aid in the valuation work with the result that information has been made available to the Valuation Department as rapidly as it could be used, and many of the valuations have been completed. The remainder probably will be completed this year. No serious dispute has arisen between the owners and the Valuation Department with regard to any valuation so far made.

The Tax Commission, following the law and its interpretation by the courts, assesses this class of property according to its true value equalized to the assessment of other properties throughout the State. The Valuation Department furnishes the Commission with an estimate of the true value of each railroad and utility property.

THE APPROACH USED IN DETERMINING VALUE

The true value is defined as the amount at which a property might be transferred from a fully informed willing seller to a fully informed willing buyer, each free of control by the other, and neither acting under compulsion. Therefore, in reporting true value to the Commission, the Valuation Department furnishes the same figure that it would to the owner of the property or to a prospective purchaser. The distinction between value for rate making purposes, or rate base, and true value which is tax base, is recognized, the former being defined briefly as the amount that has gone into a property, and the latter as the amount that can be gotten out of the property.

In determining true value consideration is given to all elements that have any bearing upon the subject, insofar as facts concerning them can be ascertained. Among these are:

1. Normal cost of reproduction.
2. Physical depreciation.
3. Deferred maintenance.
4. Obsolescence.
5. Inadequacy.
6. Over capacity.
7. Utility.
8. Record of earnings.
9. Statistics of operations.
10. Probable stability of enterprise.
11. Potential business.
12. Potential earnings.
13. Historic cost.
14. Market price of stocks and bonds.

The first step in valuing a property is to secure or make an inventory of it in sufficient detail to show the extent, kind, and location of the property, and of its elements, and also to serve in determining its cost of reproduction. In the case of railroads, detailed inventories were made sometime between the years 1915 and 1928, for the purpose of valuation by the U. S. Interstate Commerce Commission, and copies of these inventories have been secured for the files of the Valuation Department. The property records of the railroads show the changes that have been made in these inventories. Some of the public service companies had relatively

good inventories of their properties, while others whose properties had been built or acquired only recently, had no inventories worthy of the name. The latter concerns were requested to prepare inventories of their properties and have done so. Thus, inventories of practically all of the railroad and utility properties in the State are now available.

COST OF REPRODUCTION ESTIMATES

Cost of reproduction alone is not a criterion of true value of railroad and utility properties, nor is it even after an allowance for physical depreciation has been deducted. It is much more important as an element in the determination of rate base than of tax base, but it is necessary in the latter, as well. It may be considered the minimum amount which would be fixed as the basis of fair return when service rates are established, and is one indication of true value if the earnings approach a reasonable return on the investment. The earnings and potentialities of some concerns are such that the true value of their properties closely approximates cost of reproduction less depreciation; whereas the present and prospective business available to many of the railroads has shown such a decrease from former years that cost of reproduction less depreciation appears to have little relation to the true value of these roads. However, it is a convenient basis of comparison between different properties, and in practically all instances, the cost of reproduction less depreciation of the component parts of a property should be available for proper allocation of assessment.

Before computation of the normal cost of reproduction of any property was commenced, engineers representing a number of the public service corporations having properties in the State were consulted with the object of ascertaining their views as to what might be considered normal cost. This was in the early part of the year 1933 when construction costs were at almost their lowest point, and uncertainty existed regarding their immediate future trends. After a full review of the subject, the suggestion of the Valuation Department that average costs for the year 1930 be accepted tentatively as normal, was adopted. This was adopted because the average costs for 1930 were approximately midway between the high costs of the boom period and the prevailing low costs, and also because considerable utility construction had been done in southern territory during that year, and actual cost data for much of this were readily available. It was understood that if future trends indicated the tentative prices were materially out of line, these would be changed either by the application of general cost indices, or by the adoption of a new schedule of prices. Subsequent construction costs, however, seem to be approaching those of 1930, and so far there has been no occasion to change the original figures.

In most instances the actual pricing of inventories and the extension of these prices have been carried out by the engineering staffs of the utility companies under the supervision and with the cooperation of the Valuation Department, all prices being passed upon by the Department before being used. In the case of some of the smaller concerns, both the pricing and computations have been handled entirely by the Valuation Department. These estimates have been made on the same basis, even if not always in as much detail, as if they were to be used for determining the rate base, and the usual indirect costs have been included. The inventories and appraisals in most instances have been found useful by the

companies themselves, and are being used both in intra-company business and in negotiations with others.

For these inventories and appraisals, and in all other instances where property owners are asked to prepare data for the Valuation Department, formal schedules and printed forms purposely are not used, because the average business concern today is flooded with governmental forms for the submission of all kinds of information. The property owner is requested to prepare the data in accordance with his records in whatever manner is most convenient for him. If he requests that a form for preparing the data be outlined, this is done for him, but he is at liberty to change it if he wishes. Of course, it is preferred that data furnished by utilities be compiled according to the standard classification of accounts for the particular type of utility, although this is not insisted upon.

Normal costs of reproduction have been estimated for all of the railroads in the State, but these have been based upon the original Interstate Commerce Commission's inventories and valuations supplemented by the railroads' own property records, brought to date by the application of construction cost indices. These estimates probably are not so accurate as those which are being made for other utility properties, but serve the purpose until time is available for more precise valuations.

Depreciation Estimates

Depreciation, deferred maintenance, and obsolescence are determined by actual inspection of the properties jointly by engineers of the utility and of the Valuation Department. Estimation of depreciation on an age-life basis has been avoided whenever possible, but has been necessary to some extent particularly in the case of pole lines, in order to avoid delay in the preparation of tentative estimates for immediate use. Until all property has been inspected, however, the estimate is considered tentative and subject to revision. Where the age-life basis of depreciation has been used, depreciation is not computed in direct ratio of expired life to estimated ultimate life, commonly known as the "straight line" method, but by the "service value" method by which existing depreciation is computed on the basis of the difference between the present worth of the estimated service units in a new property and the present worth of the service units estimated as still remaining in an old property of like kind. This "service value" method in most instances more nearly approximates the depreciation which would be determined by inspection.

Inadequacy or over-capacity of any plant or part of a plant is determined by conference with the company's officials and engineers, and is checked by inspection. The extent to which value is affected by these items is estimated, and the necessary allowance is included in the depreciation deducted from normal cost of reproduction.

The Utility of the Operating Unit

The value of a railroad or utility is that of an operating unit rather than that of an aggregate of disassociated properties; and for this reason the value of the individual units composing the aggregate may be greater or less than if these units were functioning independently for some other purpose. Mr. Justice Brewer speaking for the court in Cleveland, etc., *Railway Company vs. Backus*, 154 U. S., 439, said:

"The rule of property taxation is that the value of the property is the basis of taxation. It does not mean a tax upon the earnings which the

property makes, nor for the privilege of using the property but rests solely upon the value. But the value of property results from the use to which it is put and varies with the profitableness of that use, present and prospective, actual and anticipated. There is no pecuniary value outside of that which results from such use. The amount and profitable character of such use determines the value, and if property is taxed at its actual cash value, it is taxed upon something which is created by the uses to which it is put."

Thus the utility of a property, or what can be gotten out of it, not necessarily what has been gotten out of it or what is now being gotten out of it, is the principal tests of its value. The determination of utility requires estimation and speculation concerning the future, and therefore must be approached with great caution and circumspection. The only sound basis is that of past experience. This does not mean, however, that because a property has had certain output or certain earnings during the past, these can be expected to continue unchanged throughout the future. But experience provides the data from which can be determined reasons for certain outputs and earnings and for variations in them, and is the means of estimating future output and earnings on the basis of changes which recently have occurred or which reasonably can be anticipated.

For example, consider the case of a railroad whose principal traffic has been lumber and whose earnings from this business have been relatively large, but the territory through which it runs has been almost denuded of timber; and the case of another railroad which has had scarcely enough traffic to continue in operation, but extensive industrial development is beginning in the territory it serves. Obviously the income of the first railroad will decrease and that of the second railroad, increase, which would influence materially the price which a prospective purchaser would pay for the respective railroads, and hence their value.

ADDITIONAL CRITERIA

The experience of a property is reflected by its record of earnings and the statistics of its operations. A proper analysis of these, supplemented by all information relating to prospective conditions that may affect the property, provide a sound basis for estimating its utility and the profits to be derived therefrom, together with the probable stability of these.

The value of the property is determined by the profitableness of its use, and therefore one of the principal factors to be considered is the amount of the investment that would be supported by the anticipated returns from the enterprise. The amount of this investment varies with the rate of return which is necessary to attract capital to the particular type of enterprise, with due consideration of the hazards affecting the future utility of the property itself, and under current investment and financial conditions. In the valuation of railroads and public service corporations the amount which would be supported by estimated prospective earnings is computed, and is given much weight in determining their values.

The historic cost of a property, whenever available, is secured, and is given consideration in estimating its value; but historic or original cost incurred under conditions which have prevailed during the past twenty years, in most instances, is of little evidential value with regard to present worth.

The courts in passing upon cases involving true value, vary somewhat in the degree of recognition given to the selling price of stocks and bonds outstanding against a property, as reflecting the value of the property. This method of valuation should be given consideration when the necessary information can be secured,

but should be used always with great circumspection and with the realization that rigid adherence to it may result in absurd conclusions. When control of a property is acquired through purchase of a majority of the securities outstanding against it, this at least is an indication of what the purchaser and seller think of the value of the property, provided each has acted without compulsion.

However, the number of security sales which result in transfer of control of properties is almost negligible compared to the number made for speculation to take advantage of short or long term fluctuations of the security markets, where the speculator has little or no knowledge of the underlying properties. Planned manipulation of security prices is a matter of common knowledge, and the possibility of manipulation having affected the prices studied may cast doubt upon their soundness. Whenever the stock and bond method is used as one of the indices of value, a detail study of the factors affecting the recorded sales is required in order to determine the weight which should be accorded this method in the case under consideration.

A practical difficulty encountered in attempting to secure information on the market prices of stocks and bonds is that some issues of many companies are privately held and are not traded in on the market, and therefore prices are not available. Other concerns now are in the hands of the receivers, and some are undergoing reorganization. In these cases security values often are indeterminate. However, an attempt is made to secure all information available regarding security prices, and this information is given such weight as appears proper in the specific case.

There is no single ideal method which is practicable of rigid application to all types of properties nor even to all properties of the same type; but consideration is given to all of the foregoing factors according to their apparent relative importance in each specific case, in estimating the true value of each property.

The valuation work is well under way, and its results are being reflected by improvements in assessments each year. This is particularly true of railroads and public service corporations. The standard by which this improvement is measured is not solely increase in total assessments, but a greater parity in the assessment of individual properties.

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"The value of the property is determined by the profitableness of its use; and, therefore, one of the principal factors to be considered is the amount of the investment that would be supported by the anticipated returns from the enterprise." —*W. H. Wallace.*

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The Process of Appraising Single-Family Homes

By HARRY GRANT ATKINSON

WE have witnessed many business tragedies in this country during the last five years. None of them have been more heart-breaking, none have been followed by more bitter consequences, than the disasters caused by incompetent and dishonest appraisals of real property. Nothing has brought more havoc into the personal lives of people; nothing has thrown more confusion into business relations based on faith in real estate.

All this has focused the attention of thoughtful men upon the detailed procedure of estimating value and made them conscious of the inadequacy of commonly-used processes. Depressions deaden the sensibilities of some people; they make others think. The Lash of Difficulty is a great stimulator of thought. And so, today, throughout the country, we find people thinking about the difficulties involved in building, selling, financing, insuring, and taxing homes, and puzzled over the problem of how to measure the value of these homes.

Although most people always have considered single-family homes easier to appraise than any other type of real estate, there is still no general agreement as to the best way of measuring their values. The truth of the matter is that homes are probably more difficult to appraise accurately than any other class of real property.

The procedures of some appraisers of homes may be likened to the three blind men who went to "see" an elephant. One of them placed his hands on the elephant's trunk. He carefully considered its shape, its cubical contents, and its vertical position. Then he said: "The elephant is like a tree."

The groping hands of the second appraiser found the elephant's tail. He examined it with grave deliberation and asserted positively, "Not so—it is for all the world like a rope."

The third expert reached out his hands and touched the elephant's side. He passed his sensitive fingers from left to right, up and down, back and forth, and then he declared with sincere conviction, "You are both wrong. The elephant is like a wall covered with a hairy hide."

So, in the appraisal of homes, the appraiser who considers only cost, or who contents himself with a comparison of the property with other properties in the neighborhood, or who concentrates solely upon net income, fails to get a complete picture of his problem or a complete understanding of the property and the uses for which it is adapted.

APPRAISAL BY COMPARISON

But there are appraisers who base their estimates of value solely upon sales prices and resemblance to other properties. The great danger of relying upon this approach to the valuation estimate lies in the fact that its apparent simplicity too frequently leads the appraiser to overlook fundamental facts, to ignore the purpose for which the appraisal is made, and to neglect the task of making a really thorough comparison.

There are literally hundreds of different items involved in a thorough comparison, and it is practically impossible to do a 100% perfect job in the use of this approach. Blind reliance upon this procedure is fraught with certain grave dangers. Let us consider a few of them:

1. No two properties are ever exactly alike. However similar they may be in other re-

spects, their locations are different—even though they may be adjacent properties. Differences in location create differences in value. This is evident from the fact that we often find property of obvious high value just a few feet away from property of obvious low value.

2. Houses built of exactly the same kind and grade of contruction material depreciate at different rates in the same neighborhood because of differences in the quality of original workmanship; differences in occupancy and use; differences in care, maintenance, and repairs.
3. Two similar houses may vary in value because they face different directions. One may enjoy the advantage of prevailing winds or more attractive views; the other may be denied these advantages.
4. Adjacent or immediate neighborhood occupancy may vary in quality (usually does) and may be a factor of prime importance in certain cases.
5. An accurate comparison on the basis of recent sales makes it necessary to know the exact circumstances that attended each sale considered. It is important to know whether or not the seller had to sell, and whether or not he was fully aware of the exact value of his home. It is necessary to know, also, whether or not the buyer was motivated by sentimental reasons or some other unusual, out of the ordinary, impulse or desire. It is doubtful if any appraiser ever did or ever can secure all of this information, or be certain that some circumstance did, or did not, exist that, if known, would have had an important bearing on the price given for the property. Even if all these circumstances and motives are known, the appraiser still has the extremely difficult task of translating these intangibles into a common medium of exchange by which to measure the precise value of another property.
6. Other important items that vary in quality, cost, and desirability in homes that *appear* to be similar are heating plants, plumbing, electric fixtures, built-in features, flooring, weatherstripping, insulation, room sizes, room arrangement, and many others, any one of which in a given case may have a distinct influence on value as well as price.

It does appear, therefore, that the so-called comparison method, if relied upon as the sole guide to the value estimate, is loose and undependable.

Yet, similar properties in the neighborhood and the prices at which they are sold or at which they are offered for sale *are* factors influencing value. They must be considered when appraising to estimate market value—especially when appraising to estimate a market *price*. It is essential that the house be compared, in these cases, with other houses in the neighborhood, similar and dis-similar, with reference to architecture, size, cost, style, equipment, occupancy, and other features that make ownership of homes in the neighborhood desirable.

APPRAISAL BY REPRODUCTION COST

There is another group of appraisers who base their estimates of value upon estimates of reproduction cost less accrued depreciation. Their procedure is founded on the belief that a property is worth what it costs.

Cost is always an important element of value. It is unreliable, however, if it is taken in all cases as the sole standard by which to measure present worth. In the estimation of market value or market price the cost method ignores numerous intangible factors. It takes no account of the amenities, which in many cases are far more important than the actual monetary costs.

If the improvement is new and is perfectly suited to the site and the neighborhood, and if the costs are honestly based on competitive prices, the cost of the property may really constitute its worth at the date of the appraisal. This ideal arrangement of conditions seldom exists. A close analysis of the problem usually discloses modifying conditions, some of which detract and some of which add to the value of the property.

Even under the best of conditions, it is difficult to secure accuracy in the application of the cost approach. It is not uncommon for experienced contractors, who presumably know costs thoroughly, to vary as much as 25% in their bids for a

contract to erect a given house. When experienced contractors disagree on costs, how can we expect appraisers to secure precision in the estimation of cost by square foot or cubic foot methods of computation, or even by the more careful quantity survey approach which the engineer-appraiser uses?

This should not be understood to mean that it is proper to ignore costs in the appraisal of homes. It can be accepted as a fundamental principle that other things being equal, the market value of no home is greater than its cost of reproduction. Therefore, a reasonably accurate estimation of cost less accrued depreciation will set the top value of a given house.

This information is data of the first importance to the appraiser. He must not ignore it. Cost estimates constitute the very heart of appraising for fire insurance purposes. It is evident that the appraiser must know how to estimate costs, that he must give careful consideration to this factor of value, and that he must understand the limitations inherent in the use of this approach to the value estimate.

Appraisal by Income Analysis

There is still another group of appraisers. They are inclined always to base their estimates of value upon a capitalization of net income, without any particular regard to costs or to comparison with other properties.

A concept of value that has gained widespread acceptance during the past decade defines value as the present worth of future benefits. The receipt of benefits is the receipt of income. Any attempt to measure the value of future benefits is an attempt to apply an income method in the appraisal process. The income approach to the value estimate in the appraisal of property, therefore, is logical and sound in principle.

It is difficult, and often impractical, however, to apply the income approach in the appraisal of homes. This is true because of the fact that the benefits of home ownership may not include any direct measurable net monetary returns. The best and most precious direct benefits are intangible quantities which we commonly call amenities, such as security against want of shelter in old age, satisfaction of ownership, sentimental attachments arising from family or other personal associations, pride of address, and other more or less vague and indefinite human attitudes. These amenities are not measurable in terms of dollars. But they do influence value and must be considered by the appraiser, even though it is impossible to express them in algebraic symbols.

In cases where homes are built to be rented as income or investment properties or where they are purchased for this reason, the net monetary return *is* the primary consideration. The best starting point from which to approach the problem of appraising the property in such cases is the analysis of income and the capitalization of net return.

Value Not Measurable with Precision

Residental property is so inseparably connected with all of the business and social affairs of the human race that it cannot be studied as a thing apart. It must be considered in relation to many human activities. The appraiser must understand and be able to interpret and evaluate a great variety of social and economic forces constantly exerting a multitude of different types and degrees of pressure upon the value of homes.

The essence of this thing we call the value of single-family homes may not reside in the property itself, at all. As a rule, the appraiser must seek it in things entirely outside the property—in things

both tangible and intangible that influence the kind of use to which the property is put—in things that make the possession and use of the property more or less desirable. These things include the cost of living, pay-rolls, price levels, nationalities, zoning, standards of living, purchasing power of money, width of streets, schools, churches, recreational facilities, transportation, availability of mortgage money, population growth, and hundreds of other factors that directly or indirectly affect the ability and the desire of people to own homes or to live in bigger and better houses.

A study of such factors as these involves an understanding of economics, sociology, and political science. These great bodies of knowledge are classified as *sciences,* but they are not *exact* sciences, as mathematics is an exact science. They are *social* sciences. They might better be termed the science of social *tendencies,* or *observational* sciences. Their laws are not immutable but are marked by numerous exceptions. They deal with conditions and forces that are constantly changing. That is why it is impossible to formulate exact rules and principles governing the precise steps and methods to be used in appraising real property, *for, apart from its social and its economic connections, real property has no significance.* That is why it is impossible for any appraiser to determine and prove indisputably the precise value of any property. The very best he can do at any time is to *estimate* the value.

There is a "zone of error" in every appraisal. This zone is marked at one end by a figure which the appraiser believes is the minimum. He is convinced and can prove that the property is worth at least that much. At the other end of the zone of error is a figure which the appraiser is certain is the maximum amount that the property is worth. He is sure that it is not worth any more than that amount. He can prove that this is so. Somewhere in between these two figures lies the actual value of the property.

The task of the appraiser is to make this zone of error as narrow as possible. It is his job to reduce the spread between the minimum and the maximum figures, so as to arrive at a reasonable estimate which he can justify with convincing supporting evidence. This he does, in part, by the method he chooses to select, classify, and interpret his data. Equally important is the consideration given individual datum, for just one factor or element of value may make a difference of thousands of dollars in the final estimate of value.

Appraisal Data Is Varied and Complex

The appraisal of a home is somewhat like the valuation of a hand of cards at contract bridge. There are only fifty-two cards in a bridge hand; but they may be combined in an almost infinite number of ways. The shifting of one card from one hand to another, or from one suit to another, changes the value of the hand. So, in the case of homes, the elimination or the addition of a single factor may have a profound influence on the value of the home. Note, for instance, the effect of the presence or the absence of prevailing winds blowing toward the home from a stockyards district. Note the effect of fine shade trees and shrubbery, the presence or absence of modern plumbing, the lack of transportation, the presence of fire hazards, a doubled tax rate, or a general reduction of twenty percent in wages and salaries.

When one contemplates the fact that none of the three ways of appraising homes in common use can be depended upon always to produce accurate results,

that within each of these three methods there are important points upon which experienced appraisers are in rather general disagreement, and that it is impossible any way for any appraiser to compute a value which he can prove absolutely accurate—when one contemplates this, he is apt to wonder if there can ever be any hope of untangling the bewildering problem or of finding a formula upon which conscientious appraisers may relay.

Here is a puzzle that has perplexed many an honest appraiser who would like to see the vocation advanced to such scientific basis that a dozen different appraisers given the same property to valuate and working independently of each other will all get exactly the same answer. It is unlikely that any such formula will ever be found or that such exactitude will ever be attained. The problem involves too many quantities for which the only measuring stick is human opinion, too many qualities that can be weighed only on the scale of human judgment.

Yet it ought to be possible to devise some scheme by which appraisers can get closer together on their valuations than they have usually been able to do in the past. There must be some way of narrowing the spread between the $12,000 appraisal and the $20,000 valuation of the same property so typical of the last decade.

A Suggested Procedure

One cause, and perhaps the major one, for these variations in final results, has been the use of different methods of approach to the solution of the problem. The comparison approach used by one appraiser, the cost approach used by a second, and the income approach used by a third, in valuing the same property, and without qualifications or checks, will almost invariably get three different answers—frequently amazingly different answers. Certainly it would help us get closer together in our final estimates of value if we all used the same approach, the same process of computation, and if we all thought in the same fundamental terms.

The American Institute of Real Estate Appraisers has recently published a dictionary of terms which offers suggested standard definitions of over 500 terms commonly used in the appraisal field. This is a long step toward greater uniformity of thinking in valuation procedure and will tend to bring appraisers closer together in final estimates of value.

It is, however, only the first step. The next step will be the development of elementary standards of practice. The basis of such a standard was suggested in the case-study courses offered by the Institute at the University of Chicago in August 1935.

The Institute's course of study laid down the thesis that there are not three or four separate and distinct appraisal processes—but only one. There is just one appraisal process, regardless of the type of property to be appraised. This process, however, is not a cut-and-dried formula that follows invariably and in all cases exactly the same steps in exactly the same sequence. This theory does not rule out comparisons, or costs, or income calculations. It treats them as indispensable approaches to the solution of the problem. Here is a brief outline of the step-by-step procedure that might be followed in the use of the process:

1. State the Problem.
   - A. What type of property is involved?
   - B. What is the purpose of the Appraisal?
2. Make a Preliminary Survey
   - A. To estimate the probable highest and best use of the site.
   - B. To determine the scope of the investigation required.
   - C. To determine the relative importance of the three basic approaches, namely: the Comparison Approach, the Repro-

ductive Cost Approach, and the Income-Capitalization Approach.

3. Select and Apply the Primary Approach
   A. Outline the Data Program
   B. Gather the Data
   C. Classify the Data
   D. Interpret the Data
   E. Make the preliminary value estimate.
4. Apply the Secondary Approach (When desirable or necessary)
   A. Outline the Data Program
   B. Gather the Data
   C. Classify the Data
   D. Interpret the Data
   E. Make the preliminary value estimate.
5. Apply the Third Approach (When desirable or necessary)
   A. Outline the Data Program
   B. Gather the Data
   C. Classify the Data
   D. Interpret the Data
   E. Make the preliminary value estimate.
6. Correlate the Preliminary Value Estimates.
7. Make your Final Estimate of Value and justify it.
8. Write the Appraisal Report.

Basically important is a clear and accurate statement of the problem. This includes consideration of the kind and type of property involved in the light of the purpose for which the appraisal is made. To make an appraisal is to solve a problem. No problem can be solved intelligently unless the one who attempts to solve it knows what it is that he is trying to do. So, the starting point in the appraisal process is the task of making an accurate and exact statement of the problem.

A preliminary survey and inspection of the property and its environs is essential. This must be done before a plan can be adopted for studying the problem. This survey may follow a carefully developed technique and it may involve a lot of time and expense. Or it may be done, in some cases, in a few minutes time and involve no expense at all. In every case, however, it should be at least thorough enough to enable the appraiser to make a reasonably accurate preliminary estimate as to the highest and best use of the site. It should help him decide whether or not the improvement is a balanced improvement, an over-improvement, an under-improvement, or a mis-placed improvement. It is often necessary for the appraiser to make a decision about these matters before he can intelligently lay out a work program.

There are only three possible approaches to the solution of an appraisal problem. These approaches are: comparison, cost estimation, and capitalization of income. The solution of a given problem may require the use of all three approaches, or it may be necessary to use only one of them, or two of them. The purpose of the appraisal determines which of the three approaches should be used, and the order in which they should be applied.

We can illustrate this general principle by reference to just three cases. If the purpose of the appraisal of a given single family home is to estimate the amount of money that a purchaser would be justified in paying for it for his own occupancy and use as a home, the primary approach is *comparison*. This will set the maximum price he should pay considering the prices at which similar houses in the neighborhood have recently sold or at which they are available at the time of the appraisal or at which they are likely to be available in the near future. It must be understood, however, that the maximum figure set in this way is only an approximate one. For the house being appraised is not exactly like the ones with which it is compared. It may be somewhat better, or somewhat inferior. Also there may be circumstances separate and apart from the property itself which would impel the purchaser to pay slightly more than the figure set by the appraiser, and he might, under such circumstances, be fully justified in doing so.

After the appraiser has made his estimate by the use of the comparison approach, he should check it by an applica-

tion of the *cost* approach (the secondary approach here). The purchaser would not be justified in paying more for the property than it would cost him to buy a lot and build a new house on it like the one under appraisement.

The appraiser has now applied two approaches and made two value estimates. The lower of these two figures fixes the approximate value of the property. It is only an approximate value, however, and must be correlated or adjusted by the appraiser to arrive at the final value estimate. In making this final estimate, *the appraiser must consider all factors that have important bearings on the case and be guided by his own judgment.* The *income* approach has no practical utility in this case.

If the purpose of the appraisal is to estimate the amount of money that a purchaser would be justified in paying for this same single-family house as an investment and for an income from rents, the primary approach in the appraisal process is *capitalization of net income.* In this case the property cannot be worth more than the present worth of the future net return on the money invested in it. The comparison and the cost approaches may be employed here if the appraiser desires; but they are relatively unimportant.

If the appraisal is for fire insurance purposes, the primary approach is the *cost* estimate. Neither of the other two approaches are of any practical significance in this case.

Here we have three different appraisals of the same property, each made by the same appraiser, perhaps, but each made for a different purpose. It is quite possible, even likely, that no two of these three value estimates will be the same. Yet, each one of them may be absolutely correct, even if not precisely accurate.

The application of any one of the three approaches involves five distinct steps: (1) outlining the data program, (2) gathering data, (3) classifying data, (4) interpretating data, and (5) making a preliminary value estimate. The first four of these include identification and consideration of all the factors that influence the value of the property. The fifth has to do with the mechanics of valuation and is concerned with the mathematics of the problem.

But each one of these five steps differs in accordance with the approach in which it is being used and in accordance with the relative importance of each approach. The gathering of data in the comparison approach, for example, involves different considerations from those that control in gathering data for use in the cost approach or the income approach.

The detailed procedure that should be followed in the use of these five fundamental steps constitutes about all there is to the science and technique of appraising. Here is where it is necessary to abandon generalities and get face-to-face with specific details. Here is where the student appraiser stands in greatest need of instruction and training. Yet, there is probably no other phase of appraisal procedure on which there is today less authentic information.

The case study courses of the American Institute of Real Estate Appraisers have made a genuine contribution to the profession in developing a clear-cut general outline of the appraisal process. This general outline is the first step in the development of Standards of Practice based on scientific methods of solving appraisal problems. The next task will be the development of standard detailed outlines of each of the five steps that constitute each of the three approaches to the estimate of value.

How to Build a Business

By J. Geo. Head, J. P.

WHEN your Secretary invited me to come and address you upon some subject of professional interest, my first feeling was one of gratification at the complimentary suggestion that I could tell you anything which would be of interest to members of the two great Institutions to which I also have the honor to belong. Next came a feeling of sympathy with those who were beginning to travel along life's road by the same route as I myself have followed. I recalled the old pictures which memory preserved, and saw again the same outlook as now presents itself to you. Let us for a moment examine the prospect.

First of all, there is the crude necessity of earning a living; then the desire to do so successfully and honorably, so that to the base coin of commerce may be added, not only the reward of industry but also the jewels of reputation, and of a consciousness of work well done. That is the vision of us all, the vision without which there is no meaning in life and no real satisfaction in living.

But most visions are misty in detail, most roads are difficult in places, and our vision and our road are no exceptions to the rule. Directly the traveller starts on his journey this at once becomes evident; having descended from his lofty viewpoint of youthful enthusiasm to the lower road of ordinary business, he finds the vision obscured by the dust of competition; the hard places of the way begin to reveal themselves at once; the road runs uphill from the very start; the work is arduous and the progress slow.

An address to a joint meeting of Junior Members of the Institute and the Chartered Surveyors' Institution, at Newton Abbot, on 25th October, 1935. Reprinted from the *Journal of the Auctioneers' and Estate Agents' Institute of the United Kingdom*, January, 1936.—Ed.

Now, on this journey of ours there are, no doubt, a few who travel by car, speeded by wealth or influence; some ride horseback on the steeds of lucky chance; but most of us have to walk; the journey means hard toilsome going, uphill, downhill, mile by mile, and before long many a walker congratulates himself that he took the counsel of a friend to provide himself with stout shoes and a good map. For this reason alone we have met tonight, to gather, if possible, some hint from the experience of one who has travelled part way along the road, and from whose failures and successes alike useful lessons may be drawn which may help some one of you on your journey.

The Benefits of Training

First, then, *fit yourself by study for your task.* This you have already done in great measure by passing the examinations of your respective institutions. Your trials in that respect, at any rate, are partly over, and doubtless you value the advantage they confer on you, but since the examinations were a part of your ordinary curriculum, one may well doubt whether you fully appreciate what an awkward stile you have crossed by passing them, and what progress you have made towards your goal by so doing. Without them, a young man, even though he may have been duly articled, has but a very limited outlook, and a feeling of perplexity as to the scope of the knowledge he will require. I remember so well the awe and wonder with which I regarded the great men of my young days; wonder as to the extent of their attainments, and ignorance as to the range of their knowledge, or of the way

in which it could be acquired. Doubtless such perplexity still weighs upon the junior, paralysing his efforts, since he knows not whither they should be directed.

But the examination and the course of studies which lead up to it at once remove the beginner's difficulty; they define for him the scope of his profession and the area within which he should work. They enable him to select certain subjects in which to specialize, to become acquainted with the rudiments of others, and to preserve the possibility of expanding his knowledge in those directions if necessary. They are, moreover, a veritable map of the road, and only those, who in the course of their business efforts have been without this assistance, can appreciate the enlightening and steadying influence which the examination system affords to a young man setting out to pursue his calling, a calling of the greatest diversity and interest, capable of utilizing every ounce of brain and every atom of personality, and affording him an opportunity of serving his generation with credit to himself and benefit to his fellow-men.

Assume, then, that, with the passing of the examinations, the first constituent of the junior's equipment is available. The second is the driving force of energy and perseverance. This driving force you have by virtue of your youth, that inestimable boon which is given to all once, but which nothing can recapture. Use it therefore to the full! But it is in attaining the proper use of this energy that a certain restraint is required. In some quarters, for instance, there existed at one time a practice of canvassing for work indiscriminately, sometimes, indeed, without strict adherence to truth on the part of the canvasser. This was never defensible, but it is now definitely barred by the Rules of Conduct. These Rules, however, are not intended to sterilize legitimate business enterprise, they seek only to guide it in the right direction, to prevent the degradation of the agent's repute, and to substitute the right sort of co-operation for the wrong sort of competition.

The beginner in our business is no worse off than in any other; indeed, his path is easier than it would be in many directions, since friendly co-operation with other firms is strongly enjoined by the Councils of the Institutions upon all their members. Moreover, there is no restriction upon legitimate advertisement, and there is plenty of scope for energy in giving prompt and exact attention to the requirements of applicant and client, and in pursuing to a conclusion the various matters which may in this way be initiated.

The third constituent is experience, the touch-stone which is necessary to turn learning into skill and to make energy efficient. This, again, comes to all, but the use which is made of it varies according to the intelligence with which the learning is employed. The most valuable hint in this direction is to *discover and define the principles* which underlie practice in every department. Do not be content to follow tradition or custom. Seek out the reasons upon which that practice is built up. Ascertain the significance of this or that state of things, and when you have identified the principle, apply it to every case. This advice may sound like a copybook maxim, but it is literally and profoundly practical.

Important Principles

Take a very simple instance, that of valuing a property which produces a certain rental—we are all familiar with the use of the tables, at 4 per cent., 5 per

cent. or 10 per cent., but do we know why these tables are applied respectively to the different classes of property? Look below the surface and you will find an invariable principle that the rate of interest depends directly upon the hazard of the income. The greater the risk, the higher the interest rate. Make your valuation on this basis, and then if you find an income bearing a well-known description, but arising in part out of a security more than ordinarily hazardous, do not hesitate to apply your principle and to value the more hazardous portion at a higher rate of interest.

Then, as to rent itself, the subject which is being valued; in order to give it its proper place in the scale of hazard one must understand its origin. Ricardo tells us rent is that which remains out of the annual produce of the land after deducting the cost of production and the profit of the producer. Applying this to rack-rents of land and buildings, "rent" is, in essence, the remainder after the cost of running the business and the appropriate profit of the trader have been deducted from the gross earnings. Any rent which does not answer this definition should be closely scrutinized lest it should prove artificial.

It is the profit capable of being earned by the trading-occupier which is the determining factor; upon it depends the degree of competition, which, in its turn, stabilizes the amount of rent obtainable for a shop, in the form of "rental value." Bearing this in mind, you will be able to distinguish between a rent which is properly secured on a shop, and that excess which is dependent, not on the profits but on the assets of the trader, let us say of a multiple company, who will pay a rent higher than the market price. Discrimination in this respect is especially necessary under present conditions.

Turning in another direction, and regarding the case of houses in private occupation, an important principle to be observed is the progressive demand for smaller accommodation which leaves the commodious house of the last generation a drug in the market, and makes the flat, and even the single-room "flatlet," not only possible but desirable.

Community tendencies such as these *are of paramount importance.*

One more example only; it is well worth while to master the principle of rating, which is only too little appreciated. Your definition of gross value is clearly set out in the 1925 Rating and Valuation Act as:—

"'Gross value' means the rent at which a hereditament might reasonably be expected to let from year to year if the tenant undertook to pay all the usual tenant's rates and taxes, and tithe rent-charges, if any, and if the landlord undertook to bear the cost of the repairs and insurance, and the other expenses, if any, necessary to maintain the hereditament in a state to command that rent."

Now, just as it is true that eventually the amount of rent depends upon the profit obtainable, so it is also true that in deciding what rent he can pay, the trader has in mind the gross rent, that it to say, a combined sum, including repairs and rates; and the more he has to pay in the direction of the two last items the less actual rent he will pay to the landlord. In fact, the statutory definition has established an equation in which the rateable value (or net lease rent) equals the gross rent, less repairs, less rates. This is an equation of equilibrium, and a rise in any one of the factors must lower one or both of the others. Unless, therefore, the gross rental value be increased, a rise in the poundage of the rates involves a reduction both in the rental value and in the assessable value.

As a rule the rating authorities do not assess up to the full amount allowed by

the statutory definition, and thus a margin is provided within which the poundage or the rating may rise without disturbing the equation; but directly that margin is passed, the effect of the disturbance is perceptible. Take, for instance, the case of South Wales, where rates are levied at *27s. 6d.* in the pound. Here it will be found that the rents obtainable by the landlord drop in due proportion. Watch the operation of this principle; you will find it interesting not only from the angle of the landlord but also from that of the rating authorities.

BUILDING CONFIDENCE

These are just a few instances, but they are sufficient to show how important it is to make a study of principles as a foundation for practice. Mastery of principles is essential to the intelligent exercise of judgment, particularly with regard to any variation from the ordinary which may present itself. The presence of such knowledge (or its absence) discloses itself without fail in the way in which a man deals with a matter, or even speaks about it, and in the building up of a connection there is no more potent influence than an obvious understanding of the principles underlying the subject. If in the handling of any business for a client the latter has reason to remark, "This man knows what he is talking about," a connection is begun which may well prove permanent. To a solicitor, nothing is more welcome than to find a surveyor or an agent to whom he can entrust the execution of a matter without having to instruct him upon details, and to such a surveyor he will naturally have recourse whenever another similar matter arises.

Side by side with this reflection is a second, which, indeed, arises out of it, and that is the desirability of seeing your clients personally, and of keeping in touch with them. Correspondence is, of course, necessary in every transaction at certain stages, but the interview is by far the more productive of future business. In the course of conversation it so often happens that another matter is mentioned which may become the subject of a definite instruction, particularly where a knowledge of fundamentals is shown by the agent.

I am stressing the importance of "confidence" in the building of a business, for the reason that confidence is veritably the corner-stone of its structure. If you once realize how in every instance where your clients invite your assistance they depend on your good faith, your appreciation of this fact will lead you to make sure that continued confidence is the result of the transaction, and to avoid any course which may tend to its diminution.

Of many directions in which such watchfulness is necessary, two instances may be mentioned. The first occurs where the surveyor is appealing for clients against the assessment of property. Here the object is to secure that the assessment is neither excessive as to value, nor unfair in that it is above the general level of other similar properties, and the skill of the agent is enlisted to attain this end. Yet a practice has in some quarters grown up by which the surveyor conducting the appeal regards himself merely as a negotiator for the purpose of getting the largest possible reduction independently of the merits of the case. Further, the fees charged are not those scheduled for professional representation. Indeed, while they are sometimes based upon a percentage of the reduction obtained, cases are not infrequent where no charge is made unless the appeal is successful.

Such a practice is much to be depre-

cated, since not only is it directly contrary to the Rules of the Institutions, but it is highly detrimental to the welfare of the surveyor himself. Looking at the matter from this angle, it is obvious that the position of the surveyor conducting such a case is merely that of a personal representative engaged solely for the purpose of making the best possible terms for his principal. It is, of course, open to any person whatever, provided he be duly authorized, to appear in such a capacity, but the danger of a surveyor occupying such a position lies in the fact that his presentation of the case is expected to carry weight with the assessment committee by reason of his professional knowledge and experience. Here, at once, we have a focus of difficulty. The surveyor must either say plainly to the committee that he is putting forward his client's views, or they will reasonably assume that he is voicing his own judgment. If the latter be true, the surveyor is in honor bound to select for appeal only those cases which he can genuinely support; yet it is not easy to believe that he has done so in view of the awkward appearance of his lamentable "no cure—no pay" arrangement as to fees.

In any case it is so obvious that the appropriate reason for employing a professional man in assessment appeals is not to bargain but to use his skill and knowledge for the guidance of the assessment committee, that the practice referred to is disastrous in its effect upon the public estimate of the surveyor; by its operation he comes to be regarded by both sides as a man ready to say anything for an adequate consideration. It does not require much discernment to see that, at such a cost, the momentary advantage of a fee is, indeed, "bad business."

The second instance is similar in nature, but is even more obvious in its effect. It is connected with the giving of expert evidence in compensation cases, or in similar matters. Naturally the surveyor must make the best of his client's case within the limits of that variation which is permissible according to the angle at which the matter is viewed. Nevertheless, the difference between the statements of two opposing witnesses is often so wide, and the partisan character of their evidence is so barefaced, as to provide a real sting for the current gibe at the expert witness. The lamentable fact is that while such evidence is entirely useless, and even harmful, to the client, it is deadly to the surveyor, in that it destroys that very confidence which we have designated the corner-stone of the business he is anxious to build.

Look at it also in another light. The ordinary witness giving evidence in court is confined to a statement of fact. Any attempt to give his opinion, in addition, is sternly repressed. The expert witness, on the contrary, is not only permitted to state his opinion, he is invited to do so for the information of the court upon matters which are beyond its knowledge and within the scope of his technical skill. Is not this a compliment to the surveyor? It is, indeed, a compliment to which a loyal response should be made, in lieu of tendering partisan evidence, a practice which is nothing less than a prostitution of the confidence bestowed on members of our profession.

Even on the lower plane of worldly advantage it is better to give true advice, though it be unpalatable, than to seek to please a client by supporting a view which is known to be incorrect. But from the level of that good professional standard to which our institutions seek to help us and to which we individually

strive to attain, such a practice needs but to be defined to be condemned. Reputation is a precious thing; that it is also a fragile one was the thought expressed by the late James Field: "It takes many transactions to make a reputation; it takes only one to lose it."

In the light of these three hints—"study principles, watch community movements, cultivate confidence"—let us sum up what we know of this business of ours. We find that it possesses interest, variety and dignity, and that it demands for its success, knowledge, energy, reliability. If you treat it worthily, it will serve you well. Give it then of your best. If the foundation be well laid, the building will rise solid and shapely; and whether it be a cottage or a palace, or whatever be the result of your labors, remember that

"When the last Great Scorer
Comes to write against your name,
T'will not be have you won or lost,
But how you played the game."

♣ ♣ ♣

I

"The third constituent is experience, the touch-stone which is necessary to turn learning into skill and to make energy efficient. This, again, comes to all, but the use which is made of it varies according to the intelligence with which the learning is employed."

II

"It is the profit capable of being earned by the trading-occupier which is the determining factor; upon it depends the degree of competition, which, in its turn, stabilizes the amount of rent obtainable for a shop, in the form of 'rental value.'"

III

"I am stressing the importance of 'confidence' in the building of a business, for the reason that confidence is veritably the corner-stone of its structure. If you once realize how in every instance where your clients invite your assistance they depend on your good faith, your appreciation of this fact will lead you to make sure that continued confidence is the result of the transaction, and to avoid any course which may tend to its diminution."

IV

"In any case it is so obvious that the appropriate reason for employing a professional man in assessment appeals is not to bargain but to use his skill and knowledge for the guidance of the assessment committee, that the practice referred to is disastrous in its effect upon the public estimate of the surveyor; by its operation he comes to be regarded by both sides as a man ready to say anything for an adequate consideration. It does not require much discernment to see that, at such a cost, the momentary advantage of a fee is, indeed, 'bad business.'"

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Estimating the Value of Farm Lands

By TRUE D. MORSE

THE system of valuing farm lands which is under discussion has often been referred to as the "American Rural Appraisal System," as it had its inception in this country through a nationally composed group. The word *system* has been emphasized as we know of no previous *system* of rural appraising that has been practiced in this country in spite of the millions of farm appraisals that have been made and the billions of dollars that have been invested based on land appraisals.

This method of valuing rural real estate is still in the development stage but is receiving wide recognition and use. The latest and rapidly developing interest comes from our neighbors to the north. Canadian organizations after sending representatives to the appraisal school conducted last year by the American Society of Farm Managers are having us explain the method in a large representative meeting in Winnipeg this month and have announced their intention of making general use of the system. In the Canada meeting will be representatives of the principal insurance companies, railroads, colonization organizations, and government officials.

The Appraisal Sub-committee of the National Joint Committee on Rural Credits after mature deliberations on February 2, 1934, released a preliminary report which has served as the foundation and guide to this appraisal system. This report was drafted by, and had the approval of, representatives of the Farm Life Conference, The American Life Convention, Federal Land Banks, Joint Stock Land Banks, The American Society of Farm Managers, American Farm Economic Association, American Agricultural Editors Association, The American Farm Bureau Federation, and The National Grange.

The system of appraising outlined has already undergone the acid test of months of field use in this country and in Canada. It has proven practical, and executives have been unstinted in their praise and state that for the first time they are receiving appraisals that effectively meet their needs.

SOIL RATINGS

To assist appraisers, handbooks are being developed with soils indexed and each soil type described in outline form on a single type sheet. The Iowa Soil Handbook for appraisers as developed for Bankers' Life Company, consists of a volume of 680 pages in which the 265 soil types of the state have been completely indexed and described. The Indiana Handbook of the Aetna Life Insurance Company contains approximately 574 named soil types and 286 recognized types conveniently tabulated. There is also included price and yield data on crops for every county of the state. Similar books have been developed for Illinois, Ohio, Oklahoma, and Texas.

An accurate appraisal cannot be made without a correct determination of the soils. They must be accurately described and properly evaluated.

Experience shows that with such soil keys and type sheets at least 90 per cent accurate identification of soils is secured by properly instructed appraisers although the appraisers may not be soil experts.

An address made at the South Central Regional meeting, National Association of Real Estate Boards, at Mayo Hotel, Tulsa, Oklahoma, on February 12, 1936.—Ed.

Under the leadership of the United States Department of Agriculture the states are rating their soils on a 1 to 10 basis—Number 1 soils being best and Number 10 soils being the poorest in the state. As illustrated by Chart 1, you will see we are making effective use of these ratings.

soils on the particular farm vary from the true types.

In this illustration, soils are rated from 1 to 4 with an average soil rating for the farm of 3.35, which would place the property about one-third down the scale of Illinois soils and bring the farm as a whole

CHART 1—SOIL RATING FOR A 225 ACRE ILLINOIS FARM

(Reproduced from an actual appraisal)

Soil Type Number	Name	Color and Texture		Topography	Drainage	Acres	Soil Rating	Total Cultivation Points
		Surface	Subsoil					
146	Elliott Silt Loam	Brown to dark brown silt loam	Pale brownish or drabbish yellow with rusty brown spots —Clay loam	Undulating to gently rolling	S-Moderate SS-Slow	135	4	540
152	Drummer Clay Loam	Black clay loam	Mixed gray and pale yellow clay	Smooth, depressional	S-Moderate SS-Moderate	45	1	45
67	Harpster Clay Loam	Bl with grayish cast cl of silty cl almost ashy with excess shell fragments	Drab or gray clay to silty clay or silt	Flat, nearly level or basin-like	S-Moderate SS-Moderate	35	4	140
145	Saybrook Silt Loam	Light brown to brown silt loam	Yellowish or reddish br. silt loam or silty clay loam with pebbles	Gently rolling to rolling	S-Rapid SS-Moderate	10	3	30

Total Cultivation Rating 755
AVERAGE CULTIVATION RATING 3.35

In this part of the report the appraiser must copy direct from the type sheets the description of the identified soil types. Thus there is recorded the exact description of the soils as prepared by the best soil authorities of the state as the soil type sheets have been worked out with the soil departments.

In the appraisal blank the appraiser must next show the extent to which the barely within the classification of soils primarily adapted to crop use.

COMPONENT PARTS OF BASIC VALUE

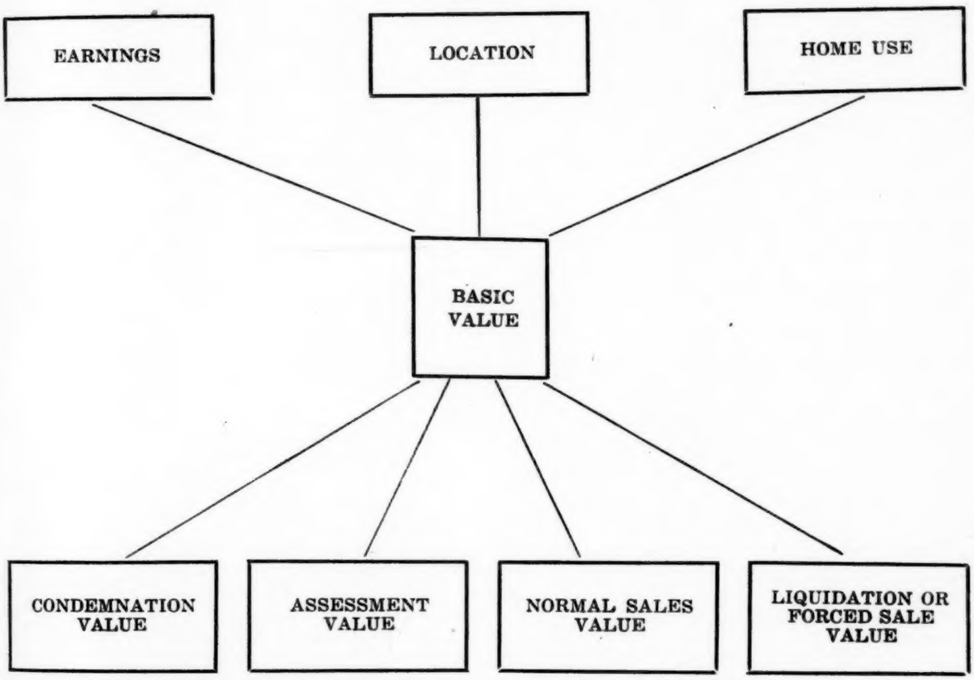
We recognize that value flows from three sources, *i. e.*, earnings, location, and home use. These combined factors produce "basic value," which, as defined by the Appraisal Committee of the National Joint Committee on Rural Credits, is the

worth of a property derived from these economic elements.

If a specialized value is desired, "basic value" is first determined and recorded, and basic value is then adjusted or modified to reach the desired value for special purposes such as, condemnation value, assessment value for tax purposes, sale value, etc.

ator and a typical crop program. The accuracy of this part of the valuation schedule depends to a large extent on following closely typical yields, typical management, and typical crop plans. The appraiser must not reflect superior or inferior management that may at the time be on the farm or the results will be distorted. He is appraising the physical property not the owner or manager.

Chart 2



Most appraisals stop when Basic Value has been reached. It should be emphasized that special values are reached only after Basic Value has been determined.

The basic value of the farm of 225 acres previously referred to was developed as shown on Chart 3.

An Example

Note first, the earning value of the farm has been determined using a typical oper-

The crop yields used in the earnings statement are selected by the appraiser after checking the actual record of the farm and after reviewing the average yields for the county in which he is working. This latter information is furnished by the home office and is a part of the handbooks previously referred to.

The price of corn, oats, hay, and the other commodities is based on a five to ten

CHART 3—EARNINGS, LOCATION, AND HOME USE STATEMENT

I—EARNING—POTENTIAL

Crop or Source	Acres	Yield Per A.	Total Yield	Price	Value	Rental share	Owner's part
Corn	104	46	4784	$0.42	$2,009.28	½	$1,005.00
Oats	52	40	2080	0.25	520.00	½	260.00
Clover	22	Cash rent		6.00	132.00	All	132.00
Soybeans	28.5	20	570	0.77	438.90	½	219.00
Pasture	18.5	Cash rent		6.00	111.00	All	111.00
Buildings	...	...		...	...		...
Total Acres	225			Owner's total gross earnings			$1,727.00

EXPENSE—POTENTIAL	Amount	
Real Estate tax at $1.11 per acre	$250.00	
Special Tax	...	
Insurance	21.00	
Maintenance	110.00	
Managament	175.00	
Fertilizer	...	
Seed	50.00	
Baling, threshing, shelling, del. charges, etc.	50.00	
Owner's total expense	$656.00	$656.00
Owner's Potential Net Earnings		$1,071.00

Typical Potential Net Earning Value when Capitalized at 5% $21,420.00

II—ADJUSTMENTS FOR LOCATION AND COMMERCIAL USE

	(Per Acre Basis) Plus	Minus	
Markets, Roads, Transportation	$ 5.00	....	
Community	....	....	
Comparison with Neighboring Farms	....	....	
Hazards	....	$ 5.00	
Improvements	5.00	....	
Physical Features	....	....	
Natural Resources	....	....	
Total Adjustments	10.00	5.00	
Net effect per acre	$ 5.00	....	
Net Total Adjustment for Location and Commercial Use (225 acres)			$ 1,125.00

III—ADJUSTMENTS FOR HOME AND NON-COMMERCIAL USES

	(Per Acre Basis) Plus	Minus	
House	....	....	
Yard	....	....	
Home Income	....	....	
Recreational & Scenic	....	....	
Church & School	$ 2.00	....	
Neighbors & Neighborhood Nuisances	....	....	
Outside Employment	....	....	
Total Adjustments	2.00	....	
Net effect per acre	$ 2.00	....	
Net Total Adjustments for Home Uses			$ 450.00

Total Basic Value of the Farm $22,995.00
Total Basic Value Per Acre $102.00

year average price for the particular district in which the farm is located. This data is prepared and distributed from the home office through the handbooks and the appraiser must use the price which the office has determined as the average price which has been paid to producers over a period of years in the district where the farm is located.

The owner's share of the income is determined on a rent basis regardless of whether the farm is tenant-occupied or

not. Typical rent shares are used. In this case the owner's gross income would be $1,727.00.

The appraiser determines the facts shown in the first part of Chart 3, not on the basis of what the farm is growing at the time of the appraisal, but on the basis of typical and long-time use of similar land in the community. For example, suppose a farmer has three-fourths of his land in corn and one-fourth in potatoes. He is in a region where most of the farmers follow a rotation of one-half corn, one-fourth oats, one-fourth clover and about ten to fifteen per cent in permanent pasture.

It is apparent that the corn-potato income will be higher than the four year rotation. The appraiser used crops and yields which are typical of the community and reasonable to anticipate under typical management.

Under expenses the actual annual tax is used if it is not abnormal at the time of the appraisal. The method of handling drainage taxes and special assessments has been carefully worked out but it would require too much discussion to attempt to include any statement here. Other expenses must include all items which an owner would have to pay to receive the rent share set out above and to give the property typical maintenance.

Management is considered a normal expense and deducted regardless of whether it is furnished by an owner-operator or through the employment of professional services by an absentee owner.

After deducting expenses there is, in this case, a net income of $1,071.00. Capitalizing this income at 5 per cent, the rate furnished by the home office, we have an earning value for the farm of $21,420.00. The appraiser has now set out the value which the farm receives from the source of value designated in our second chart as the value flowing from earnings.

To determine the effect which the other two sources of value have on the farm, it has been found practical to deal with them in the form of adjustments of the earning value. They may either add or detract from the value previously determined as shown in the chart.

This farm is on a concrete highway within 100 miles of a large metropolitan center. The appraiser felt that the market, roads, and transportation facilities add $5.00 per acre to the value of the farm.

A well-scattered infestation of Canada thistle and field bind weed and the probability of their further spread creates a menace to the future of this farm to the extent that the appraiser has deducted $5.00 per acre.

Especially serviceable improvements add $5.00 per acre.

Under adjustments for home and non-commercial uses, he has found only one item of outstanding significance and that is the religious and educational facilities for which he has added $2.00 per acre. The appraiser has accordingly added to the value under adjustments for location and commercial use $1,125.00 and under adjustments for home and non-commercial uses he has added $450.00.

The appraiser's basic value of this farm is, therefore, $22,995.00, or an average of $102.00 per acre.

ADVANTAGES OF THIS SYSTEM

One of the most important features of this appraisal system should be emphasized. By this method the appraiser is required to show definitely the sources from which, in his opinion, the farm derives value. In the past, he gave us just one figure per acre or a total figure for the entire farm. There was no way of knowing accurately whether it was all

based on earnings, or whether all of the value was derived from the location of the property and its value for home use.

By this method, the field appraiser has been required to set out an analysis of the value which he has placed on the farm. If he has been inaccurate in his work, or his judgment has gone astray, these discrepancies are readily determined. Certainly no farm loan executive with this type of an appraisal before him will be guilty of approving loans on farms where all, or a major portion, of the value is derived from features other than earnings when it is clearly the policy of the company to loan primarily on values that can be substantiated by income.

Building values, as such, are not set out in this appraisal. The question of whether the final building value should be added to or subtracted from the basic value is not generally agreed upon. One group says that income for buildings is shown in income from pasture and building rent, and cost against them is shown in taxes, insurance and maintenance, and hence they are fully accounted for in the final basic value.

Others say they are not adequately accounted for and they add to basic value the appraised value of buildings up to the value of an adequate set. Some loan men say that to obtain the loan value on land alone, the value of the buildings must be subtracted from basic value.

It is probable that much of the confusion arises over the small income good farm improvements actually return in some sections of the country. It is a common experience to find unimproved farms renting for as much as those that are improved. It is probably true, however, that unimproved farms have the "use" of buildings on other farms in the form of storage, barns for horses working the land, and homes for the operators.

In the appraisal blank from which the above illustration has been drawn, it is assumed that any added value which the buildings give to this property above those contributed through earnings is accounted for under item No. 5, Division II "Improvements" and item No. 1 under Division III, "House."

CONCLUSION

The following quotation indicates what certain Canadian investment groups feel is the proper policy in establishing land values.

> "The valuation should reflect the productive capacity of the farm based on the long term productive record of lands of that type in that particular district, and assuming that the farm is operated under typical management and under crop rotations and practices typical to the community. The productive record should extend over a period of at least ten years.
>
> "The extent to which the basic value of the farm is affected by such factors as buildings and other improvements, location to market, roads, school and church facilities, and home value should also be considered."

It would therefore appear that Canada is willing to subscribe to the principles being developed in this country. We are advised that for some time they have looked upon the productive capacity of a farm as the starting point in establishing land values.

It is not assumed that the illustration used here is final or even conclusive. It simply shows one way in which this appraisal system is being used in finally arriving at an appraisal value. In the past, it is probable that our best and most experienced appraisers have used some such method rather unconsciously. They have reached a correct answer at the end but did not show the steps taken in arriving at it and did not follow a system that was uniformly understood both by those doing the appraising and the executives and loan committees which receive them.

Now executives are saying, "Give us the facts," "Give us your broken down and

detailed analysis of the facts which influence value and we can then judge the merits of the final value."

It is believed that this method meets this requirement, and lays the basis for uniformity of practice while in the past there has been none.

An appraisal is an opinion. It is a personal opinion. Regardless of the value of all the facts or the technical knowledge of the appraiser, or his recognized ability properly to marshal and weigh information, his opinion is *valueless* unless it comes from one of unquestioned integrity who has high ethical standards.

Every appraiser knows that it is possible to be honest within the letter of the law but thoroughly dishonest in reality. An appraiser must be free from outside influence or personal relationships to the property he is appraising. He can have no undisclosed interest, he must be free to express judgment without affecting his salary or position, and he must with it all base his opinion on a broad experience and education. It is not enough simply to express an opinion.

A qualified rural appraiser is one who gathers all the facts thoroughly and impartially, organizes these facts effectively and logically, weighs and interprets them judicially, and draws from them a sound ethical and definite conclusion.

Although what I have chosen to call the "American Rural Appraisal System" is still in the process of development and will undergo many changes, we feel that it is a radical improvement that will put back of the farm loans and all types of farm investments a degree of accuracy and confidence that has not existed in the past.

♣ ♣ ♣

I

"An accurate appraisal cannot be made without a correct determination of the soils. They must be accurately described and properly evaluated."

II

"Management is considered a normal expense and deducted regardless of whether it is furnished by an owner-operator or through the employment of professional services by an absentee owner."

III

"An appraisal is an opinion. It is a personal opinion. Regardless of the value of all the facts or the technical knowledge of the appraiser, or his recognized ability properly to marshal and weigh information, his opinion is valueless unless it comes from one of unquestioned integrity who has high ethical standards."

IV

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♣ ♣ ♣

Operating Statements in Valuation—II

> This is the second of two articles on the analysis and reconstruction of operating statements adapted from the text material developed for the Institute's Case-Study Courses in Real Estate Appraising at the University of Chicago in August, 1935.—ED.

GROSS INCOME ANALYSIS

IN all appraisal technique the final value estimate is predicated upon numerous assumptions and theories. Unreasonable assumptions and untenable theories are not conducive to the emergence of reasonable value estimates. We thus fail to recognize the importance of differentiating between causes and effects.

For illustration, it has been pointed out that "obsolescence" and "deterioration" are *causes* which produce an *effect* known as "depreciation." Likewise it has been shown that "income" is a *cause*, the effect of which is *value*. The sun doesn't set because it gets dark; it gets dark because the sun sets. By the same line of reasoning, property doesn't produce income because it is valuable, but is valuable because of its ability to produce income.

Thus, in attempting to measure the size of an effect, such as value, we must first make sure of the reasonableness of the cause, which is the income. From an erroneous estimate of income will logically ensue an erroneous estimate of value. Hence, it is extremely important to analyze the income statement in order to ascertain the reasonableness of the income shown preparatory to the capitalization computations and the formation of the opinion of value.

The analysis of the income statements of commercial business properties is somewhat different from those of apartment properties, due to the difference in the kind of incomes produced. However, the ultimate goal is the same—to ascertain the reasonableness of the income shown in the statement, and its probable permanence.

In analyzing the gross income statement of a business property many things must be investigated. First, is the actual rental income comparable with that being paid for similar space in newly executed leases? Frequently it is not. Leases made some years ago may provide rents that are either too high or too low, as compared with what the same space could be leased for today. It must be remembered that the property as a freehold (unencumbered with a lease) is one thing—the capitalized value of its reasonable income may be another.

For illustration, in a case in mind a long term lease was executed prior to the World War. Based strictly on its fixed income it reflects a value of $2,000 per front foot and, at this time, the property is reasonably worth $10,000 per front foot. This latter figure represents the value of the property, irrespective of the lease, but it does not represent the value of the lessor's (owner's) interest. Loosely speaking, it may be said that, of the $10,000 per front foot of value possessed by the property, $2,000 of it represents the lessor's interest and $8,000 the lessee's interest.

On the other hand, in another actual case, a 99-year lease was made at 6% net

on a value of $20,000 per front foot (in 1928) during a time when by no stretch of the imagination could the property have been valued in excess of $10,000 per front foot.

Neither did such a lease reflect the value of the property, as evidenced by subsequent cancellation by the bankruptcy court. And, this ridiculous lease was entered into by a national chain store company.

Then, too, particularly in small business properties on the "edge" of the business district, or in suburban centers, leases have been made at excessive rentals in anticipation of future developments. These leases also are misleading and must be cautiously studied before any rental assumptions are made.

The goal of our present inquiry is the reasonableness and permanence of the gross income. Under the latter comes the financial responsibility of the tenant. Numerous are the cases in which the corporation on the lease is apparently the same corporation occupying the premises, due to a similarity of names. However, they may be entirely different companies, the actual lessee being a dummy corporation formed for the purpose of executing leases, and the actual tenant being a "gilt-edged" company having no responsibility to the owner of the property, but solely responsible to its own irresponsible dummy which can bankrupt itself, to avoid the lease, without injury to the parent company.

In arriving at the reasonable rental for a business property there are three rather well-defined lines of approach: First, the investment of the owner and the return normally contemplated thereon; Second, the market condition, i.e., the supply and demand, and rentals so reflected for similar space; and Third, the actual or potential business volume of the tenant and his consequent competitive limitations in rental expense.

Unless the rentable property consists of a complete real estate unit with land and improvements substantially as an entirety, the approach under the first condition mentioned above is ordinarily limited although it should always receive some consideration. The approach under the second condition should usually be controlling and is, in actual practice, the application of the "Comparative Approach" in the Appraisal Process. The approach under the third condition is nothing more than the so-called "percentage lease" concept. This practice has come into rather extended use particularly in the past decade. In the hands of an able appraiser it has merit in assisting his interpretation of other data, but it is to a large extent unsound in principle, and as usually applied, it is a tool that is for the benefit of the merchandiser (tenant) as opposed to the property owner (landlord). That there is some broad relationship between gross business in certain lines and the reasonable rentals that such volume may justify is not to be denied. In principle, however, the relationship should be applied more to the establishing of a location in a *proper rental district* than in attempting to cast the rentals in a given district in the mold designed by the merchandiser and outside the control of the property owner.

However, as a general statement it may be said that the greater the volume of sales, measured in terms of dollars, the greater will be the ability to pay rent. A merchant who sells $4,000 of goods per month can afford to pay more rent than if he sold half this amount, and his rent-paying ability would be more than doubled.

The most important consideration is always based on the inexorable law of supply and demand. If the number of vacant storerooms constitutes an appreciable

BLANK APARTMENTS

An Unfurnished "Walk-Up"—38 Apartment Bldg.

Statement of
CASH RECEIPTS AND DISBURSEMENTS
Furnished by the Owner

		1932	*1933*	*1934*
Number of Rooms	171			
Number of Square Feet	39,030			
No. of Rms. per Apt.—Average	4.5			
Age of Building—Years		7	8	9
GROSS INCOME				
Rental Value—100% occupied		$26,575.60	$24,295.00	$21,621.00
Vacancy Loss		3,675.00	6,050.64	2,262.00
Bad Account Loss		430.00	625.00	210.00
Effective Gross Income		$22,470.00	$17,619.36	$19,149.00
OPERATING EXPENSES				
Fuel		$ 2,565.40	$ 2,387.30	$ 2,491.00
Ash Removal		228.00	188.00	218.00
Water		360.70	315.60	342.00
Electricity		216.40	761.41	310.00
Shades and Decorating		1,620.30	2,330.11	1,326.00
Janitor Salary		1,665.00	1,800.00	1,610.00
Janitor Supplies and Miscellaneous		182.00	802.46	210.00
Repairs and Replacements		342.00	1,348.58	261.00
Exterminating		26.60	35.50	42.60
Advertising		192.60	252.51	98.00
Total Operating Expenses		$ 7,399.00	$10,221.47	$ 6,908.60
Net Income after Operating Expenses		**$15,071.00**	**$ 7,397.89**	**$12,240.40**
CAPITAL OR NON-RECURRING EXPENSES				
Refrigeration Contracts		$ 962.21	$ 739.32	....
Decorating and Replacements		221.62	718.42	165.00
Repairs		325.00	....	425.00
Miscellaneous		36.60	....	81.10
Total Capital or Non-Recurring Expenses		$ 1,545.43	$ 1,457.74	$ 671.10
Net Before Other Expenditures		**$13,525.57**	**$ 5,940.15**	**$11,569.30**
OTHER EXPENDITURES				
Interest on Bonds		$ 3,000.00	....	....
Special Assessments		261.21	$ 252.12	....
General Taxes		2,500.00	3,707.76	$ 2,176.66
Insurance		....	503.99	....
Management		1,123.50	1,290.00	957.45
Total Other Expenses		$ 6,884.71	$ 5,753.87	$ 3,134.11
NET INCOME		**$ 6,640.86**	**$ 186.28**	**$ 8,435.19**

percentage of the available total (i.e., the supply of such space outruns the demand therefore), in a particular area rents will seek relatively low levels indeed. It may be that a 17 foot storeroom is reasonably worth a rental of $50 per month and that the merchants in the area can well afford to pay this amount. However, if there is an excess of such space in the immediate area, new leases will not be made at this figure; nor will expiring leases be so renewed, except at a lower figure.

Thus, in commercial properties the supply of and demand for comparable space is a matter of foremost rank in the considerations of the appraiser preparatory to estimating the reasonable rental income from business properties. This consideration always outweighs that of the ability of the tenant to pay a reasonable rent.

However, these matters are usually reflected in the rental rates at which new leases are made to new tenants. They are not fully reflected in renewals of old leases for the reason that an old tenant who has an established business can afford to pay a higher rental than one who newly ventures into business. In addition, the cost of moving to a new location, the loss of business during the interim, as well as the matter of getting re-established in the new location are matters which warrant a higher rent on the part of the old tenant in the present location. The newcomer, on the other hand, has a tremendous amount of inertia to overcome before becoming established and thus has a lessened ability to pay rent.

Apartment Income Statement

In the larger structures, the quantum of gross income produced is, in an appreciable

BLANK APARTMENTS

RECONSTRUCTED OPERATING STATEMENT

Gross Income		
Rental Value—100% occupied		$21,150.00
Vacancy and Collection Loss		2,115.00
Effective Gross Income		$19,035.00
Operating Exenses		
Fuel	$ 2,372.00	
Ash Removal and Scavenger	216.00	
Water	308.00	
Electricity and Lamps	216.00	
Decorating, Painting and Shades	2,378.00	
Janitor's Salary	1,700.00	
Supplies and Miscellaneous	184.00	
Repairs	250.00	
Exterminating	57.00	
Advertising	100.00	
Management	952.00	
Total Operating Expenses	$ 8,733.00	$ 8,733.00
Net Operating Income		**$10,302.00**
Other Expenditures		
General Taxes	$ 2,500.00	
Insurance	245.00	
Reserve for Periodic Replacements	678.00	
Total Other Expenditures	$ 3,428.00	$ 3,428.00
Net Income to the Property		**$ 6,874.00**

measure, influenced by management. Here the results of coordination are exemplified in two ways: First, in a greater or lesser amount than the normal gross income because of intelligent and industrious management; and Second, because of the sale of commodities and services other than those produced by the real estate.

The management of an apartment house is of great importance. On the average, particularly in furnished structures rendering personal services, that portion of the gross income imputable to the land is not in excess of 10%. Therefore, a 10% increase in the gross income may double the capitalized land value while conversely, a 10% decrease in the gross income may completely dissipate it. One manager may profitably operate a house that another has failed in.

The difference in the gross income from a given apartment under different managements may be as much as 20%. Surely such a difference is not occasioned by the property which, after all, is the matter of concern of the appraiser. It is because of this possibility that the estimation of the reasonable gross income of an apartment house, under so-called average management, may be quite different from the actual gross income shown on the books.

In the analysis of the gross income (and also expenses) of operating statements, a comparison of unit incomes and expenses of comparable properties is helpful in arriving at the reasonableness of those of the property under consideration. For illustration, in a given property it may be found that the gross income, as shown on the books, is $8 per room per month, whereas other similar and comparable properties are producing an average of $10 per room per month. Or, the comparison may be made on the basis of income per square foot of area. Deviations from the "average" for such properties should serve as a "red flag" to the appraiser—to ascertain why. Possibly the difference lies in managerial ability; or, the stigma of dedication to use may be the cause, such as is exemplified by subnormal standards of morals of the unattached female occupants. However, the appraiser should know *why* the income is subnormal.

Conversely, he may find that the property under appraisement is producing a gross income of $12 or even $14 per room per month, as compared with the average of $10 for comparable properties. This difference too must be explained before the income can be processed into value. Possibly it is due to management, in this case superior management, or, it may be due to other causes. In the cheaper properties, particularly old rooming houses under lease at exhorbitant rentals, the reason not uncommonly is because of the immoral or illegal use to which the property is dedicated. Obviously, the hazards environing such rentals render them unstable indeed, subject to discontinuance at any time, and properly capitalized at unusually high rates.

That portion of the gross income derived from commissions on laundry, milk, and other supplies, and on profits from the sale of public utility services to the tenants is in no sense relative to the property, and the net income arising therefrom is clearly imputable to management.

COST OF MANAGEMENT

The item of management includes the supervision of properties; for example, leasing, collecting rents, and the other duties incidental to management. Notwithstanding the fact that management methods vary in different parts of the country, generally it will be found that the cost of this service will vary from 4% to 5% of the gross income collected.

In Chicago, for illustration, the management of income-producing properties is

usually placed in the hands of a management firm. A particular firm may have hundreds of different apartment properties in its hands for which it secures tenants, collects rents, looks after the making of repairs, and the other things incidental to such management. One such firm in Chicago collects rents from 9,000 different tenants.

This service is rendered on the basis of a percentage of the gross income collected. In contradistinction thereto, in some other parts of the country, for example Los Angeles, the management of apartment properties is usually handled on a very different basis. The owner of the property will usually employ some person to live in the place and give him an apartment for nothing for performing these services.

In making a study of the operating expense statement, if it is found that the cost of management deviates materially from the average cost prevailing for this service, then the appraiser should make inquiry in order to ascertain the reason therefore preparatory to revising these estimates in the operating statement that may be necessary before he can make his final estimate of the net income.

In income residential properties it will usually be found that the costs of management are in line in cities where there are management firms specializing in this kind of service. However, the cost of management may be out of line where such service is rendered in the custom mentioned as prevailing in Los Angeles where each individual property is individually managed.

However, in the larger properties, particularly hotel properties, variations are more apt to exist and may prove of greater importance in the analysis. Irrespective of the type of property, the costs of management should be resolved into unit costs; that is, expressed in terms of percentages of the total income collected as compared with the average figures prevailing in the community for similar types of property.

In larger properties, such as hotels or apartments rendering a considerable amount of personal service, or even in office buildings, if the cost of management appears to deviate appreciably from that percentage of the gross income which should represent the unit cost for the property (e.g., per square foot of net rentable space), it will be necessary to break down the item of management into its various component parts, such as salaries paid for managerial help, office help, telephone service, collections, etc., in order to find out just where the deviation occurs. It is only by making an analysis of these component parts of the management item that the difficulty can be isolated. It may occur because there are too many clerks, or too few, or in any other item of the operating expense.

Form I is inserted for the purpose of pointing out irregularities which may be discovered. It is intended to be used in connection with a more complex type of enterprise. However, the appraiser can rearrange it to fit his problem.

FIXED CHARGES

The operating statements furnished by owners not uncommonly include many items which, from the standpoint of valuation, are not properly included as fixed charges; such an item is "interest." Interest paid for the use of money is a fixed charge as regards the property only when it is considered as an equity, but it is not a fixed charge as regards the property considered as a whole, which is the standpoint from which the appraiser approaches the problem. For this reason, mortgage interest must be eliminated from the operating statement.

Then too, it may be that on a given property there is a $100,000 bond issue outstanding which requires payments of $10,000 per annum, of which 6% represents the interest on the balance of the amortization of the capital indebtedness. In such a case, during the current year, of the $10,000 shown as fixed charges, $6,000 would be shown as interest and $4,000 as the return of capital.

These items have no place in the operating statement whatever, considering it from the standpoint of the valuation of the property, because it increases the operating cost and, by that token, decreases the apparent net income to the property to the extent of $10,000 less than that warranted, which, on a 6% basis would penalize the property to the extent of $166,666, which assuredly is not justified.

Considering the $4,000 of return of capital in this case, it is readily seen that if this amount is left in the statement as a fixed charge, and later depreciation is charged against the gross income, then the depreciation, in a measure, has been doubly shown, to the unwarranted injury to the value of the property. Then, too, it is obvious that the interest on the bonded indebtedness cannot be considered unless, after the computations are completed and the property value estimated, an additional sum of $100,000 is added to the result.

Under the heading of fixed charges comes depreciation. This item is susceptible to various treatments. The building may be considered as a shell, the physical life of which will usually extend beyond its economic life. Therefore, if an annual provision is made to replace those items the lives of which are shorter than the economic life of the property, then the utility will have been cared for and the sole charge for depreciation on this account will be provided for in the replacement reserve. The results found by computations based upon these assumptions

FORM I

	Annual Cost	Cost per Room	Per Cent Total Operation	Per Cent Gross Revenue
General Administration				
1. Management:				
Salaries—Manager	....	....	....	....
Assistants ...	....	....	....	....
Clerical	....	....	....	....
....	....	....	....	....
Total	....	....	....	....
2. Accounting:				
Salaries—Auditor	....	....	....	....
Assistants ...	....	....	....	....
Clerical	....	....	....	....
....	....	....	....	....
Total	....	....	....	....
3. Outside Service:				
Auditor's Fees	....	....	....	....
Legal Fees	....	....	....	....
Advertising	....	....	....	....
....	....	....	....	....
Total	....	....	....	....
4. Supplies	....	....	....	....
....	....	....	....	....
Total	....	....	....	....

will be found to be the most reasonable, in the majority of cases.

To possess value, any investment property must be capable of producing a net income in excess of costs of operation and fixed charges during its economic life. In the appraisal process it is necessary that estimates be made of the reasonably expected gross incomes as well as of the reasonable expenses and fixed charges before arriving at an opinion of the net income imputable to the property.

Quite often, historical statements of incomes are available from the owner or operator of a property, or from certified audits which have been prepared. This is excellent data and may correctly delineate the experience of the past, although the apportionments of the items may be subject to criticism. This is the reason for first reconstructing the operating statement. After reconstruction, the amount so apportioned may be found to be out of line with the normal experience, which is the reason for the second reconstruction of the operating statement. Then too, it must be remembered that operating statements show data of the past. With this we are concerned only so far as it may be useful in indicating what we might expect in the future.

RECONSTRUCTING THE OPERATING STATEMENT

THE PROPERTY

The operating statement and its analysis has been discussed from the standpoint of data. Let us now reconstruct the statement for the Blank Apartment house (on page 168 in its original form and page 169 in its reconstructed form). This is a court type of building located on a corner lot. The building is now ten years old, and while it is in no sense elaborate, at the time it was built it was considered a first-class English Basement type three-story walk-up apartment building in keeping with other buildings in this general area. Each apartment has the customary hardwood floors and trim, one bath with tile wainscoting and shower, mechanical refrigeration operated by the tenants' electricity, gas stoves, and steam heat furnished by the owner. It contains nine five-room apartments and twenty-nine four-room apartments (including two in the basement).

THE GROSS INCOME

We have made a rental survey of this district, discussed the renting of these apartments with several rental agencies in the neighborhood, studied the comparative operating statements, and discussed rentals with some of the present tenants. Based on this study, we have concluded that the building should be filled to a normal occupany on the following rent schedule:

3—5-room apartments (corner)............. ....$60.00 per month
6—5-room apartments (elsewhere in the building)..................$55.00 per month
9—4-room apartments......$47.50 per month
18—4-room apartments.......$42.50 per month
2—basement apartments....$30.00 per month

This totals $1,762.50 per month which, multiplied by twelve, results in a total annual rental of $21,150, on a 100% occupancy basis. We believe these rates are reasonably stable and therefore show this figure in the reconstructed operating statement.

At the present time, the construction of similar buildings is not justified by the rentals obtainable and for this reason the erection of similar structures can hardly be expected. It therefore appears that the supply will remain constant and that the

demand should stabilize these rentals at these figures, or at higher levels. However, the matter of increases in rentals, as the property becomes older, is conjectural.

Vacancy and Collection Loss

It will be noted in the reconstructed statement an allowance for loss through vacancy and bad debts has been set up at a sum which equals 10% of the 100% annual rental. In studying the history of a large number of similar buildings, in discussing this matter with rental agents, and in reviewing past experience, it is concluded that this is the proper figure. If it were thought that vacancy and collection losses would be more than 10%, then it would be concluded that the rent schedule was too high. On the other hand, if it were believed that the loss would be less than 10%, it would appear that the rent schedule was too low.

While we do not have the problem of tenants needing extra space as we do in commercial buildings, we do have families in a building of this size that, for some reason or another, may need another room. If the building does not have apartments of different sizes and does not have one available for a good, satisfied tenant, it is quite possible that a good tenant will be lost. In connection with large commercial buildings, it has often been said that the manager who keeps a building 100% occupied should be discharged.

This is not necessarily the case in a small building; it is mentioned to point out that the vacancy and collection loss account is of more importance than one would at first imagine.

There is no other income from the property. Waste paper and garbage are burned. No heat nor other utilities are furnished to anyone else. There are no signboards on the roof or walls of the building. Deducting vacancy and collection loss leaves effective gross income.

Fuel

The first item under operating expenses is fuel. There is no significance in the order in which the various expenses are listed here. They are placed simply in the same order that they appear on the comparative operating statement for the Blank Apartments to make the discussion a bit easier.

In this community, it is customary to use Pocahontas Mine Run coal, and therefore most of the boilers are built to use effectively this type of coal. Ordinances in this city prohibit the use of coals which develop dirty black smoke in residential districts. Experience in this community indicates that the amount of coal used per room tends towards two tons per room per year. Obviously, this depends upon the size of the room, the height of the ceiling, and many other factors.

This building is located on the northwest corner of the intersection, and therefore has south and east exposures. It is well-constructed, and the windows and outside doors are weather-stripped. The ceilings are of ordinary height and the rooms are of customary size. Based on these conditions, plus the experience indicated in the comparative operating statements, we believe that the building will require on an average slightly less than the customary two tons per room per year. Therefore 1.8 tons of Pocahontas Mine Run coal per room per year was selected. The present price of this coal, on a contract basis, is $7.70 per ton in the bin, which forms the basis of the set up for fuel expense.

There is no reason to believe that the price of coal will decline in the immediate future. On the other hand, the tendency

of recent years has been upwards, since a large portion of the price paid for coal goes for transportation. Most railroads are having difficulty in their efforts to make a return on their investment; therefore, we are not warranted in concluding that transportation charges will decline.

Another large portion of the cost of coal is for labor, and we have no reason to believe that miners' wages will decrease. It is possible that some other type of fuel may be used as a substitute for coal, but not in those areas where coal is comparatively cheap. In some private residences, oil has been substituted for coal, but this is the exception rather than the rule in the Chicago area. Then too, the salary of the janitor does not vary with the type of fuel used.

Ash Removal and Scavenger

In this community the city removes ashes and other debris from the smaller buildings, but for buildings of this size scavengers must be employed. For a good number of years, the standard price for this work was 50c per month per apartment. Of recent years, on account of the depression, many scavengers have been offering to do the work for less. However, this is only a temporary matter and the expenses involved in this part of the operation of a building will again approximate the figure quoted in the new statement. They will probably ignore the two basement apartments and do the work for 50c per apartment for the thirty-six apartments. Therefore, the amount of $216.00 for this service has been set up.

Water

It is customary, in this community, to furnish the tenants with hot and cold water at all times. In Chicago water rates have been steady for a good number of years and there is no reason to believe that they will change. In studying the experience of other buildings, there is considerable variation. Much depends on the number of families in the building that do their own washing. However, based on the experience already indicated in connection with this particular property, plus experience with the type of people who usually occupy apartments of this type, it is concluded that $308.00 is the proper charge for water.

Electricity

Electricity and globes are included in one account because the lamps are usually purchased from the company that furnishes the electricity and are shown on the same bill. In this type of building it is not customary to furnish the tenants with electricity, although the halls and basement are lighted at the expense of the owner. Some buildings have central refrigeration units. Under such conditions, the expense of electrical energy is more. This particular building furnishes electric light in the six entrances, and the stair halls, and that part of the basement not occupied by tenants.

Based upon the experience developed in small buildings, in addition to the experience discussed elsewhere in this article $216.00 per year is considered the proper charge for this item. This assumes, of course, that the building enjoys the usual competent management; that the janitor will use 25-watt lamps instead of 60's; and that he will make a periodic, systematic inspection of the building to prevent unusual waste.

Decorating, Painting, and Shades

In this account not only the cleaning and redecorating that is customarily done for the tenants once a year is included, but also the redecorating and cleaning of window shades, one-third of the sum necessary

to redecorate the six entrances and hallways every three years, and one-third of the sum necessary to paint the exterior of the building every three years. Not so long ago it was common practice to set aside one month's rent for the cleaning and redecorating of each flat.

With the decline of rents, however, and without a compensatory decline in the cost of labor, painting, etc., this rule ceased to apply. Various studies that have been made appear to indicate that, depending upon the rent of the apartment, the annual amount spent averages from 1.25 to 1.50 times one month's rent. After studying past experience in connection with this building, and looking over records pertaining to similar buildings, it has been concluded that 1.25 times the monthly rental, plus $100.00, is the reasonable amount to set up for one-third of the painting and decorating of halls and entrances, and one-third of the cost of outside painting.

JANITOR

Janitor's salaries are based on the union scale. In this community the Chicago Flat Janitors' Union has an agreement with the Chicago Real Estate Board that sets up, among other things, the janitors' salaries under various conditions. For flats ranging in price from $35.00 to $60.00 per month, the janitor is to receive $3.60 per month for each flat that is rented. In addition, he is to receive $3.00 per month for each flat that is vacant.

In a building having eighteen flats or more, he is to receive healthful, sanitary living rooms in addition, or be paid $12.00 per month extra. In this building the janitor would ordinarily live in one of the basement apartments. As often happens, he indicated that he did not care to live in a basement flat but would rent one in the upper part of the building at the regular price. Therefore he receives $12.00 per month extra.

In an appendix to the agreement between the Chicago Flat Janitors' Union and the Chicago Real Estate Board it is agreed that, effective March 1, 1931, there would be a 5% reduction in the wage scale on all classes of buildings covered by the former agreement. The janitor's salary for this property, based on the union scale, is $1,700.00 per year. However, in times of stress workmen may be obtained for less than the union scale.

In figuring expenses in an operating statement, it is better to conform to the minimum scale, especially as far as janitors' salaries are concerned. Even if the building is paying under the scale at present, it does not follow that such will always prevail. On the other hand, there is no reason to believe that janitors' wages will be increased materially. As long as the rental from the apartments is not commensurate with their costs, there will hardly be justification for it. Possibly the 5% cut will be restored, but there is nothing in the immediate future that points to such a change.

SUPPLIES AND MISCELLANEOUS

This is an account that needs explantion. The janitor buys mops, brooms, and cleaning materials, water hose, etc., which, comparatively speaking, amount to very little in a building of this size. In addition, it is customary to charge miscellaneous items to this account. He may have to purchase door mats, shrubbery, grass seed, keys, door locks, window panes, etc., all of which are customarily shown in this account. Experience indicates that the sum of $184.00 per annum will take care of this item.

The comparative operating statement of Blank Apartments includes an account

called "Repairs and Replacements." In this account there is no place for replacements. They will be handled elsewhere in the statement. Repairs are necessary to the continued operation of a building. From time to time, the rear porches need risers, and steps and posts, to say nothing of floors and railings. From time to time repairs are necessary in connection with the plumbing, electric wiring, heating plant, and radiators. Tuck pointing and minor roof repairs must also be taken into consideration.

Comparatively speaking, if the building is properly maintained, these repairs do not aggregate a very large amount. It is not fair to compare an account shown in this comparative operating statement of the Blank Apartments with one set up in this operating statement because the large amount set up in the owner's statement ($1,348.50) no doubt includes a large number of replacements which not only maintain but extend the useful life of the item. Therefore, they belong, either in the reserve for replacements, or in the addition to capital account.

EXTERMINATING

An account for exterminating is not always included in the operating statement. This does not mean, however, that it is over-looked. Sometimes, it is done with such irregularity that it becomes a miscellaneous item and is placed under that heading. However, since it is set up in the comparative statement it has also been set up in the operating statement.

There are several different types of exterminating companies doing work of various degrees of satisfaction. In this territory, a good company undertakes to do all of the ordinary exterminating for $1.50 per apartment, by contract.

ADVERTISING

It is not customary in this community for the management concern handling a property to pay for the newspaper advertising in an effort to rent the apartments. If, by agreement with the owner, advertising is to be done in the newspapers, it must be paid for out of the income from the building. Institutional and general advertising is paid for by the management concern. In a building of this size, some newspaper advertising is justified. What it will be depends upon the success of the renting campaign and general conditions. An expenditure of $100.00 for newspaper advertising is fair and may be justified in a building of this type.

THE MANAGEMENT FEE

The next account under operating expenses is management. In the original operating statement, this account was included under the heading, Other Expenditures. It is not properly placed under this heading because it certainly is a part of the operating expense. The Chicago Real Estate Board rate for managing properties of this kind is 5% of the rents collected. During the depression, this rate was cut to 4% by some concerns in an effort to get business. Some of the management concerns, in an effort to get a larger volume of business, accepted the reduction from large trust companies that were liquidating or reorganizing a number of buildings.

For the experienced and reputable management concern the 5% commission is not too much. The practice of unscrupulous management concerns who take a rebate from some of their dealers and contractors to whom they give most of their business is frowned upon by the better management organizations. Under no circumstances, should any such practice be given consideration in an operating statement.

Therefore 5% of the effective gross income should be set up as the management fee in this community.

Capital or Non-Recurring Expenses

The operating statement of the Blank Apartments shows several accounts under the caption "Capital or Non-Recurring Expenses." These items do not appear on the reconstructed operating statement because capital outlay is not a part of the operating expense. It adds to the value of the operating plant and therefore should be taken out of the surplus, or added from outside funds. The so-called refrigeration contracts are also a part of the operating plant. Depreciation of this equipment should be set up as an expense by prorating it over the life of the refrigerators.

The account for decorating and replacements, as shown in the reconstructed statement, was set up to take care of unusual decorating costs not ordinarily included in the annual clean-up. This happens frequently in very old buildings and is properly charged to the capital account.

If it is something additional added to the regular decorating, then only that portion of it may be charged to the capital account. As already stated, replacements, repairs and other miscellaneous, non-recurring outlays are preferably handled in a special reserve account.

Expense for purely operating purposes is $8,733.00. This leaves a total net operating profit of $10,302.00.

In addition, there are other expenditures. You will note on the original operating statement an item called "Interest on Bonds." Although this may be shown with propriety on an operating statement, the fact remains that it must be eliminated by the appraiser who is valuing the property as a whole.

Special Assessments and General Taxes

The original operating statement also shows an item of special assessments. These assessments are spread on the theory that they benefit the property. If they do, they should be added to the capital account just the same as the addition of a room or sun parlor on a building. However, if they do not particularly affect the income, and are annually recurring for a term of years, they may be shown as an operating expense. In this case they have been excluding them from the operating statement.

General taxes, however, are a part of the other expenditures which are necessary and are properly included in the account "Other Expenditures" on the operating statement. There is a tendency for general taxes to approximate 2% of the value of the property. It must be kept in mind, however, that this is a very general tendency, subject to many fluctuations.

The tax rate for the past year in this district was $6.49 per hundred. However, the value as appraised by the assessor is equalized by what is commonly called a 37% factor, which actually results in a rate of about 2.4% of market value as estimated by the assessor. In most communities assessors stay on the safe side and avoid a large number of complaints by appraising conservatively, and therefore, under normal conditions, appraise the property at a figure which approximates 80% or 90% of the value as appraised by professional appraisers. If this is taken into consideration, you will note that the rate comes very close to 2% of the actual value of the property.

Usually the value of the land is estimated by comparison, and the value of the building by the cost of reproduction less depreciation. In times of distress, such as we have been passing through, this pro-

cedure may play havoc with our tax bill. The fact that the cost of construction of apartment buildings, as already indicated, is not commensurate with their value may throw the estimate of taxes somewhat out of line. While it may take some time to get the assessors and appeal boards to see the light under such conditions, it is not unreasonable to believe that when sales and other data is available, adjustments will be made.

For a good many years prior to the depression there was a general increase in general taxes. If we stop to think, howere, we realize that we have received a large number of additional services from the community. Many of these services have improved; the automobile has brought on many complicated problems; sanitation, fire protection, school facilities, and many other services offered by the community have improved materially. We are living in a faster world and we need more services. Whether taxes are going to increase materially is a subject of debate. In Chicago, for instance, there are tax rate limitations and a quadrennial assessment.

Chicago, like most cities, has already started to retrench in spending activities. While there may be an increase in general taxes, it will probably be within reason and in keeping with increases in the value of the property. In a measure, one will offset the other.

Based on this sort of reasoning, and upon the general experience as indicated in our comparative operating statement, plus such information gathered from the data and experience on other buildings, the sum of $2,500.00 is the proper amount for general taxes on this property.

Insurance

It is customary to carry several types of insurance on property of this kind—fire, tornado, and public liability.

The fire insurance policy purports to do nothing more than to indemnify the owner for his actual loss in an amount not to exceed the amount of the insurance carried. It is useless to carry insurance against the loss of something for which the owner cannot be indemnified. Buildings of this kind having approved tar and gravel roof carry a rate of 26c per hundred dollars of insurance which, based on a five-year policy, amounts to 21c per hundred per year. Fire insurance in the amount of $75,000.00 is ample for this building requiring a premium of $157.50 per year. $30,000.00 worth of tornado insurance, which, based on a rate of 16c per hundred on a five-year policy, equals $48.00 per year. A public liability policy on this property would not exceed $42.50, making the total insurance premium outlay $245.00 per year. Premiums for this type of insurance have not changed over a long period of years and there is no reason to believe that they will change in the future.

Reserve for Replacements

The last account in this operating statement is the reserve for replacements. Sooner or later this building will need a new roof; the mechanical refrigerators will have to be replaced; and the gas cooking stoves customarily furnished the tenants in this type of building will also have to be replaced.

It is necessary to replace the roof once every fifteen years. In this type of building with a little more than 13,000 square feet replacement will cost approximately $900.00 (including a re-coating job once during that period). The annual replacement charge, then, should be $60.00.

Modern refrigerators should last at least twelve years. This makes a cost of approximately $4,800.00 every twelve years. An item of $400.00, therefore,

should be set aside for this replacement. Gas stoves at a cost of approximately $35.00 each will have to be replaced about every ten years and, therefore, a sum should be set up for this at $135.00.

The stair carpets must ordinarily be replaced every eight years which, in this building, would amount to $300.00. Therefore, an item for the replacement of stair carpets at $38.00 per year should be included.

If the boiler does not have to be completely replaced from time to time, replacement of major parts of it must be made. If the building is properly maintained and the proper type of reserves are set up to take care of these major replacements, the building will last structurally much longer than its economic life.

Major replacements to the boiler should not exceed $45.00 per year in addition to the general repairs which are charged to the repair account.

In all, therefore, setting up a reserve for replacements of $678.00 is justified. The total amount of other expenditures, therefore, equals $3,428.00 which, subtracted from the net operating profit, leaves a net income of $6,874.00.

A general depreciation item has not been set up. In addition to the expenses and other expenditures set up in this statement, depreciation may properly be included, especially if the net income is considered as an annuity in perpetuity. Recent practice, however, indicates that most appraisers prefer to use the net income as an annuity for the remaining useful life of the building. If such a plan is followed, the general depreciation item may be eliminated. If a general depreciation item is included and the net income used as an annuity in perpetuity, the appraiser should be careful to take notice of the fact that he has a reserve set up for the major replacements which will keep the building in sound structural condition for many more years. Therefore the general depreciation account is set up as a smaller item than is customary if no account for reserve for replacements is included in the calculations.

This operating statement portrays adequately what a property of this type should properly do. It shows the various items which are necessary to make the gross effective income forthcoming, and, at the same time, keep the investment intact—excepting, however, functional and economic depreciation. Obviously, if the building is old or if, for some other reason, it has run its course, the reserve for replacements should be handled accordingly. This particular building is ten years old, but its useful life will far outlast any of the reserves for replacements that have been set up.

The wide discrepancy between the net income as reconstructed and the net income as reported on the actual statements clearly shows the necessity of such detailed adjustment before attempting to use the figures for appraisal purposes.

The Appraisal of Easements

By WALTER W. COHN, M .A. I.

Mr. Cohn, in his article, has presented an interesting problem in appraisal practice and has brought out very clearly and fully the technique followed in an actual case. The fact that it is drawn directly from his personal experience adds weight and materiality to his adopted approach to the appraisal. Inevitably the real estate appraiser will be identified more and more with public utility valuation problems which involve specialized treatment and application.—Ed.

THE problem discussed herein arose in connection with the appraisal of real estate of a utility company which is engaged in distributing water to the towns, villages, and cities in the suburbs of Buffalo. The company claimed certain values for its real estate in a capitalization of its assets for rate-making purposes before the Public Service Commission of the State. The most controversial of these assets was the real estate consisting primarily of easements located in public highways, in private rural lands, in private urban lands (subdivisions), and in railroad rights of way. The appraisals reflected the cost of replacement or duplication as of valuation date rather than the original cost.

Some thoughts on this subject are presented here, not because of the authoritative value of the conclusions, but rather as studies and suggestions upon the principles involved.

There is an appalling paucity of literature and information on the subject of easements. The Water company properly made certain claims for real estate values that had not been made in rate cases before as far as could be learned. Certain theories, seemingly finely-drawn, and perhaps highly theoretical, were adopted as a basis of judgment, and I shall welcome comments or criticisms of them.

Just as a fee is *all* of the rights to the benefits that inure to the ownership of land, so an easement is *some* of the rights to those benefits. To determine the value of an easement, it is obviously necessary to determine the value of the fee. There is some relationship between these values, and it is not surprising that an easement in land of high value should be worth more than a similar easement in land of less value. However, the primary factor in fixing the value of an easement is the burden that the easement imposes upon the fee. The cost of acquiring an easement along the fringe or property line of an urban lot will be less than the same length of easement traversing the middle of a farm, because the latter penalizes the farm by a greater restriction in its use, whereas the former may have little if any practical effect upon the use of the urban lot. This burden to the surrounding land is known as *severance value,* or perhaps more properly "Severance Damage."

In the case in question there were few problems in determining a severance value due to any extraordinary burden that the easement created. This was not

a coincidence but the result rather, of a recognition by grantor and grantee of the rule that the burden to the land determines the cost or value of an easement through the land. Furthermore the consequential damage caused by severance is a special study in itself. I advert to it here, because of its initial importance, without further attempt to discuss this troublesome phase of evaluating easements.

SURFACE AND SUB-SURFACE RIGHTS

Surface rights are more valuable than sub-surface rights because the latter cause a smaller inconvenience to the owner of the land and therefore impose a lesser burden on the fee. The surface rights are the paramount rights. Although it is impractical to construct permanent improvements over a sub-surface easement, there are nevertheless many other uses left to the owner in the surface, such as light and air, agriculture, landscaping, bill-boards, displays, roadways, etc.

Sub-surface easements should therefore be acquired less expensively but how much less? The National Real Estate Journal of January 20th, 1930, makes the following reference:

> "Mr. Justice Callahan sitting at a special term of the Supreme Court in the matter of Condemnation proceedings brought by the Board of Transportation (Sub-air Case at 8th ave. and 53rd St.) ruled that the sub-surface rights in a case of that character carried 17% of the full value."
>
> (New York Journal, March 26th, 1928.)

As a matter of judgment in distinguishing between surface and sub-surface easements in rural communities or in the satellite cities or villages in a metropolitan area, and in the absence of any extraordinary severance a value equal to ⅓ of the value of the fee was ascribed to the sub-surface rights.

EASEMENTS IN HIGHWAYS

A real estate value, apart from any franchise value, was claimed for rights to lay many miles of water mains in the public highways. For the most part these highways consisted of the broad, well-developed roads surrounding a metropolitan city, and which had been dedicated to the municipalities by formal conveyances, by right of user and maintenance, or by constructive highway improvements. In many cases the abutting owners held title to the center of the highway, subject to grants for highway purposes, thus leaving to them a reversionary interest. The water company had obtained consents from these owners to lay their pipes through the highway.

The New York Transportation Corporation Law gives a water company, incorporated with the consent of a proper municipal authority, the power:

1. To lay and maintain pipes for distributing water in any street or highway.
2. To extend pipes in streets of adjoining towns (with certain limitations).
3. To acquire rights to lay pipes in private lands by condemnation.

The consent is general, not for any particular highway in a municipality. The consideration for the consent is the duty to supply water. The laying of pipes in such highways does not impose upon the fee an additional burden beyond the concept of the owners' grant to the municipality of the easement for highway purposes. The decisions of the Courts sustain this point, and define the proper use of the highway in a broad sense. They state specifically that the highway is not only for the passage of pedestrians and vehicles, but all incidental and necessary uses for the safety and comfort of the public such as sewers, lights, hydrants, etc. In order to further define the proper use of the highways for street purposes, the New York State Public Service Man-

ual distinguishes between distribution mains serving the adjoining lands, and transportation mains for transporting water from one community to another without service to the intervening territory.

I acknowledge a certain pre-conceived idea that there was no real estate value for an easement in a public highway, but I have done my very best to free myself from such prejudice. The results of my appraisal more or less bear out this original idea, but the conclusion was not formulated to support the original concept. The water company claimed that it was penalized by taxes on its right to operate and should be benefited by a real estate value in capitalizing its assets for rate making purposes.

It seemed, however, that the improvements in the highway only were assessed under the Personal Property Law and that the land rights or easements were taxed in the Franchise Law for the quasi-monopoly that is granted under State protection to sell its services. Although the right to operate in a specified territory is not exclusive, it is in practice non-competitive since a consent for a rival is usually not available from the municipal authority. This Franchise tax is measured by earnings. Where a consent is obtained from an abutting owner, he is induced to give it by the service he will receive. If he exacts compensation for an easement he not only jeopardizes the opportunity to receive water service, but he invites a high price for that service by permitting the water company to capitalize the cost for such consents. The abutting owner is too eager for water and for the increased value of his land with water facilities to penalize the company directly and himself indirectly by demanding payment for an easement in the highway adjoining his land.

We know that the subdivider who retains title to the streets in this development, makes many expensive sacrifices to induce the Water Company to extend its lines through his property. If this is true, the capital structure for rate making purposes should not include land values for easements in public highways since the easements may invariably be duplicated without cost.

Assuming, however, for the purposes of academic speculation that there is a separate real estate value for these easements on account of the reversionary rights, how shall we evaluate an easement in a highway?

In the first place the value of the fee to the highway is related to the value of the abutting lands. But to ascribe to the roadways the same value as that of the abutting lands is to lift one's self up by one's boot straps. In other words that is what we are trying to prove. The primary source of value in the abutting lands is the access provided by the highway. The value of most land is measured by the frontage, and the latter presupposes the existence of the roadway. Value develops from the fact that a right of way is devoted to the common use and connected with other thoroughfares. Hence sub-dividers usually donate some part of their land for streets, in order that the balance may attain greater value. It is inconceivable that the abutting land owner would give up his access by selling off his rights in the roadway except for practically the full value of the abutting lands.

The roadway fronting the abutting land is like the stage of a (legitimate) theatre in front of the seats. These seats are valued in proportion to their proximity to the stage. If the attraction is in such demand that the management decides to install additional seats, it may not erect those seats on the stage without cancel-

ling the value of all the other seats. The management must retain the stage space in order to sell seats, in spite of the fact that such seats are less valuable due to their remoteness from the stage.

The value of land abutting a roadway would be altogether different without the roadway. Every depth-curve rule recognizes the fact that the value of a square foot of land diminishes as its position recedes from the front. It is, therefore, fundamentally false to ascribe to the roadway itself a value equal to or even commensurate with the value of the abutting frontage.

Let us suppose, however, that a parcel of land extends from one highway to another, i.e. with a major and a minor means of access. Let us further suppose that it is contemplated to close the minor access, or secondary highway. The ordinary private buyer could use that part of the former roadway which fronts on some intersecting roadway, but he could not make any effective use of the inordinate length. It is improbable than any buyer except a utility company could use a long narrow stretch of land like that contained in a roadway, but a utility company is confined in its choice of land to needs controlled by a large system, and is not free to take up lands wherever they lie, simply because the shape is propitious. The highest use to which the land in that roadway could be placed is to add such land to the abutting lands. Little as this value may be there is normally no one to whom the land in the roadway is worth more than to the abutting owners.

The additional land in the roadway increases the value of the original land to the extent of the increased depth over the original depth. By using some depth-curve rule, preferably the square root rule, the value of the land in the highway is measured as the equivalent of rear land added to the abutting property. If the easement were six feet wide, and the normal depth of the abutting lots were 120 feet and the value \$15.00 per front foot, then the part of the roadway containing the easement would be expressed in the formula

$$X : 15 = \sqrt{126} : \sqrt{120} \text{ or } X = \$15.37.$$

In other words the fee to a foot of land, six feet wide, in a highway in front of land worth \$15.00 per front foot, is worth \$.37 and an easement therein is worth something less than \$.37.

EASEMENTS IN PRIVATE RURAL LANDS

These easements usually follow the property line, but consist of long narrow strips rather than the usual rectangular shapes in which land is sold. It was comparatively simple, using the adjacent land method, to find the acreage value of adjoining or similar land; to translate this value into a square foot price: and to multiply the area in the easement by the square foot price. As a matter of practice however any appraiser will find that he cannot acquire easements on this basis. The grantor will demand and is entitled to receive something extra on account of the unusual shape of the land in which he is conveying easement rights. Although the grantor retains some of his rights, he still bears all the tax burden, and he should have something more than the fee value of the area for what might be termed a "Strip Value."

The Interstate Commerce Commission does not recognize such additional value or multiples of the fee value by reason of the irregular shape of property that is used for railroads' capitalization in rate cases. In its manual for appraisers as published by the Bureau of Valuation in 1918 it expressly admonishes appraisers

against this practice. In spite of this, however, in the case in question a multiple of 2.5 times the fee value was used to assign an easement value in a string-shaped parcel. The multiple of 2.5 was used because this figure is sustained by the experience of certain utility representatives consulted and because this multiple seems to be born out in the majority of cases where the consideration was expressed in the grant. Of course, a severance value would materially increase the multiple—sometimes to five times the fee value. The multiple of 2.5 is by no means the last word to be said on this subject.

EASEMENTS IN PRIVATE URBAN LANDS

Invariably the grant of an easement states the purpose for which it is given and is accompanied by a map showing the position of the easement in the land. This position is usually where it will least interfere with the best use of the land, *viz,* along the property line, and perpendicular to the street. The easements were usually six feet wide. Here again something extra is due to the grantor on account of the irregularity of the shape. It would appear that up to six feet of width a sub-surface easement in a sub-divided lot in the suburbs should be worth as much as the fee to six feet of frontage. The grantor would not be justified in selling off six feet of his frontage at the market price per front foot. On the other hand he would probably not be tempted to give up some of his rights therein for less than the going values of that much land. If the easement called for a greater width than six feet, ½ of the front foot value was assigned to the excess.

This position was adopted in order to be consistent with the axiom that the whole must be greater than any of its parts. There is however a weakness in the method used, *viz,* that the width of the easement is given more recognition than the length. This was partially taken care of—but not completely—in assigning an original front foot value or by modifying the normal depth by the given depth in assigning the front foot value. However, the method could be improved in that it applies the depth-curve rule to the length of the pipes (easement) as well as to the lot.

RAILROAD EASEMENTS

Utility companies frequently cross railroad rights of way in horizontal easements. Invariably the railroad grants these easements, subject to cancellation. The charge that they make for such privileges has been standardized in a Uniform Railroad Schedule adopted by the Railroad Co-ordinating Committee of the Eastern Railroads in 1930.

In the case of horizontal easements where the utility is located in an existing highway, there is no charge by the railroads for such easements. This rule is well-known to appraisers, and is undoubtedly responsible for my preconceived idea that no real estate value exists for an easement in a highway. Where the easement is not in an existing highway, the schedule provides that: for pipe lengths up to 200 feet a charge is made of $1.00 per inch inside-diameter on an annual rental basis. Additional length is proportioned. On account of the cancellation clause in the permits, the annual rental should be capitalized on a 10% basis to translate the real estate value of such easements into money.

Where the easement is longitudinal or parallel with the railroad right of way the same schedule provides that utilities pay to the railroads an annual rental charge of 50c per inch of diameter for 100 feet lengths of pipe or fraction there-

of. This longitudinal charge is flexible and was intended for comparatively short parallel easements according to various railroad engineers. For the same reasons as applied to the horizontal easements, the longitudinal easements were appraised by capitalizing the annual rental on a 10% basis.

Another controversial element in the case in question was a parallel easement seventeen miles in length and six feet in width within a railroad right of way. The grant was limited by the usual cancellation clause. It prohibited lateral service from the water mains, and also stated that water service to the railroad was part of the consideration. The Interstate Commerce Commission advised that an appraisal is now pending before the Federal Communication Commission comprehending the Western Union Telegraph Company's easement along a railroad right of way, and that there was a certain delicacy in discussing the case at this time.

Eight possible methods of ascertaining the value of this easement were developed. Using these methods as a background I arrived at a judgmatic figure of $.20 per lineal foot which I applied to this large easement. Briefly the methods are:

1. *Adjacent Lands Method (A)*

   Assuming that the sub-surface rights are worth 2½ times the unit price of the fee on account of the unusual shape, the right of way was divided into zones of value, and the total area multiplied first by the weighted average price per square foot and then by the strip-value factor.

   As the weighted average for the right of way was $605 per acre or $.01375 per square foot or $.0825 per LF with a width of 6', the real estate value of the 6' easement was $.206 per LF.

   The formula was as follows:

   $$\frac{\$605}{43{,}560\ \text{sq.ft.}} = \$.01375\ \text{sq. ft. x } 6 =$$

   $.0825 x 2½=$.206 per LF.

2. Adjacent Lands Method (*B*)

   Assuming a weighted average of $600 per acre ($.01368 per square foot) for the right of way which is 100 feet wide, the value of the right of way would be $1.368 per LF.

   Assuming that the sub-surface easement was as wide as the right of way and worth one-third of the value of the total easement, the value per LF equalled $.456. But the value of 6' of easement should be worth something more than 6/100 or the arithmetic proportion, because the railroad would not be tempted to grant such rights for so little. The consent from the railroad would be worth something, regardless of the width of the easement. Assuming that the CONSENT to an easement from the railroad is worth 50% of the value of the easement, regardless of the width, six feet of easement equals 53% of $.456 or $.252 per LF.

3. *The Uniform Railroad Schedule for longitudinal crossings.* Obviously this was not intended to cover easements of this magnitude, because it is stated in feet, not miles of easement, and no utility company could afford to pay the rental reserved in that schedule for an easement of this character. The method based on the capitalization of the annual rental for longitudinal easements as per the Uniform Railroad Schedule and applied to a 16" pipe would show the following formula:

   Rental $.50 per inch diameter per 100 feet. 16 inch pipe @ $.50 per inch = $8 per 100 feet or $.08 per LF.

   $.08 per L capitalized at 10% = $.80 per LF.

4. During the World War two local railroads granted long extensive easements within their right of way to a utility company on the basis of an annual rent of $45 per mile. Capitalized by 10% the value of the easement would be $450 per mile or at the rate of $.085 per LF for a width of six feet.

5. A local electric utility leases to a local gas corporation a 3½ mile easement thru its right of way based upon an annual charge of $50 per mile. Capitalized at 10% the LF value of a 6' easement would be $.095.

6. An electric power distributing system buys easements thru rural lands at the rate of $25 per pole. The span between poles is between 200' to 300' or an average of 250' or at the rate of $.10 per LF for a surface easement. (This is a purchase price, not a rental price).

7. The same power company buys easements thru highly developed and sub-divided suburbs, at the rate of $50 per pole (maximum). Figuring as above, this surface easement

amounts to \$.20 per LF. (This is a purchase price, not a rental price).

8. Another utility company purchases easements in rural districts—remote from the suburbs—for laying 6" pipe at the rate of \$.50 per rod for the easement or at the rate of \$.03 per LF. (The price is a purchasing price and not a rental price).

Easements Without Specified Width

When easements are given for a definite purpose and in a definite position but where no width is mentioned another troublesome problem arises. I know of no way to appraise them unless some definite width is assumed. As the easements invariably grant the right to maintain the water mains as well as to lay and construct the same, the advantages to the company to the rights in a 20 foot strip versus a six foot strip are not proportional.

On the other hand, an easement in a strip of unrestricted width gives a certain advantage in flexibility to the grantor in the use of his land. Therefore there is some width of definite size which should be equal to an unrestricted width; and, visa versa, an unrestricted width should permit the appraiser to assume a definite width to which it is equivalent. The assumed width may vary in dealing with urban lands as against rural lands. In the case in question, the majority of easements granting rights of a fixed width in sub-divided (urban) land specified six feet. As this seems to square with the author's ideas as a layman—not an engineer—in the practical use of the easements for water pipes, he has assumed a width of six feet in the absence of a specified width.

Rules of Conduct—Fees

<u>*Section 1.*</u> *It is unethical for an appraiser to accept an order to appraise a property if his employment or fee is contingent upon his reporting a predetermined or specified amount of value, or is otherwise contingent upon any finding to be reported.*

<u>*Section 2.*</u> *It is unethical for an appraiser retained in cases where damages result from the exercise of the right of eminent domain, or result because of fraud, misrepresentation, etc., to make his compensation contingent upon the amount of, or to fix his compensation as a percentage of the damages which may be decreed by the Court deciding the issues in the case involved.*

<u>*Section 3.*</u> *It is unethical for an appraiser to accept an assignment to appraise a property when such assignment involves a bonus, a favor, or any special inducement other than a fair professional fee for the responsibility entailed and the work and expense involved. The schedule of charges for appraising adopted by the local member Real Estate Board is recognized as a proper standard of payment and should be followed. If there is no minimum fee established by the local Real Estate Board, the fee should be reasonable for service rendered and within the bounds of good business practice.*

—From Article I of the Institute's Rules of Professional Ethics.

Management as a Factor in Appraisal

By GRAHAM ALDIS, M. A. I.

THERE is no definition of "Management" either in the *Appraisal Terminology* published by the American Institute of Real Estate Appraisers or in any of the general real estate manuals. I quote an unpublished definition by Gordon Strong: "Property management must be assumed to include every branch of work, every individual act, which can be done to the benefit of the property managed." Mr. Strong amplifies this definition by a comparison with the services of an attorney to his client or a physician to his patient.

One further distinction is advisable, *viz.*, that between the problems normally falling in the province of a manager with the usual powers, including a working cash fund adequate to finance ordinary repairs and tenant revisions, on the one hand, and, on the other, problems involving questions of complete modernization or reconstruction which normally involve a refinancing problem to the ownership. Obviously, borderline cases will arise, but in this paper the discussion is confined to management in the more restricted sense.

Writers on appraising also give scant attention to this subject. Scrimshire, for example, has only one sentence indicating without amplification that a proper provision for management and collection is 5%.

Kniskern in his book entitled *Real Estate Appraisal and Valuation* gives less than a page to the topic and apparently assumes owner-management, even of larger properties, as normal, for he states:

> "Here we must return to the definition of value which is to 'the average available investor' and the only assumption that can be made is that such investor will have average management ability." (Page 387)

Passing references in his volume also indicate the same concept, *e.g.*,

> "While the rents are usually easily and promptly collected in the high-class office building, such an investment does require a great deal of management attention and effort when compared to the registered bond." (Page 35)

It will be some comfort, however, to building managers in New York and Chicago to realize that Kniskern recognizes (on page 39) that these cities show a "high proportion of the more efficient and capable type" of manager, even if their duties are only slightly more complex than clipping coupons.

On page 143 Kniskern concludes his discussion of management with the comment that while a multitude of talent is available for management of office buildings "such is not the case with commercial and residential hotels."

Babcock stresses the income factor in appraising and therefore it is not surprising to find him devoting more attention to the matter of management, in fact an entire chapter (Chapter Ten) of four pages in his book, *Valuation of Real Estate.* Like Scrimshire, he specifically mentions that the cost of management is chargeable as an expense and that in the case of owner-managed properties an allowance for this service should be included among customary expenses.

Babcock, however, surprises us by mentioning the existence of "numerous" (but unspecified) "cases where office buildings succeed in spite of relatively poor management"; moreover, "management does not usually affect the income-producing capacity of ordinary store properties to any appreciable extent when they are sit-

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A paper read before the Illinois Chapter Number Six of the American Institute of Real Estate Appraisers on Tuesday, February 11, 1936.—Ed.

uated in strategic locations." The use of the phrase "income-producing capacity" makes this statement logically defensible but somewhat begs the question. A vacant lot at State and Madison would have income producing capacity, but managerial ability would be needed to realize that capacity.

Henderson, McMichael and the shorter manuals of the handbook type make little or no reference whatsoever to management problems.

A discussion of the management element would seem most helpful to the appraiser if divided into different categories, permitting him to consider it in an orderly way in his normal attack upon an appraisal problem. In suggesting the following items along these lines, the author is indebted to the helpful comment of the members of the Illinois Chapter, Number Six of the American Institute of Real Estate Appraisers.

Design and Layout

Management is ordinarly considered in its effect upon income rather than upon *Capital Value.* The latter, however, should not be overlooked. A building, ill-adapted to its location, even if new, is immediately obsolete. The converse of this statement is equally true: an exceptionally well-designed building has a greater value per dollar invested therein and a lower rate of obsolescence. Even the best-informed architect and owner cannot be expected to know all the practical points which the experienced manager can suggest for the improvement of a building in the blue-print stage.

Such suggestions have generally been obtained in one of two ways: (a) more or less informally, through cooperation in designing by the individual manager or agency selected to operate the buildng when completed; and (b) more formally, through the *Building Planning Service* offered by the National Association of Building Owners & Managers and actually used on some ninety buildings erected or remodeled during the past fifteen years. This service functions as a committee of from five to seven managers, each especially well-qualified to examine the plans for the proposed structure—some from the particular city in which the building is located and others from other cities. Each member studies the plans in advance of the committee meeting at the site of the structure. Discussions cover all points and generally last two or three full days. A stenographic transcript is available for future consultation by the owner and architect. Without exception, I believe that the owners in every instance would heartily agree that the value of the improvements in design thus suggested have many times exceeded the cost of the service.

The appraiser, no matter how thorough or conscientious, cannot consider every detail in the design of a large building. I venture, therefore, to suggest that the appraiser ascertain whether a building of this type has had the benefit either of the *Building Planning Service* or its informal equivalent. If so, the necessity of checking many such details will be obviated and the appraiser is well justified in assigning it either a full value on a cubic foot cost basis or, in the case of a somewhat older structure, a minimum rate of obsolescence.

Operating Expenses

Operating expenses are probably the most obvious, although not the most important, indications of management efficiency. Mr. Arthur Morgan of the TVA, commenting recently upon the efficiency of public versus private ownership, as evidence that private maangement is not

always impeccable, cited the case of a young man who, succeeding as chief engineer of a small railroad, found its physical condition so excellent that he was able to show apparent savings by reducing his operating budget which gratified his directors and eventually resulted in his promotion, leaving to his successor the task of restoring the run-down condition of the property. Fortunately, the problems of physical maintenance of buildings are such that definite neglect is readily apparent upon examination of a qualified investigator, supplemented by the technical assistance of a competent building general superintendent.

Even routine operating expenses, however, will vary considerably between different classes of office buildings. A large proportion of medical tenancy involves not only greater maintenance, due to high standards of cleanliness and extreme subdivision of offices, but a large alteration item. It is unsafe, moreover, to capitalize this item beyond the expiration of the leases in question. The personal element also enters: doctors often change location not from any dissatisfaction with the building but because of a desire to shift from one group of clients to another more personally or professionally congenial, to be closer to a valuable source of referred work, or other reasons. It frequently proves impractical, moreover, to add additional space to an existing medical layout; and a doctor requiring larger quarters thus often insists upon having an entirely new suite constructed. The salvage value in an old suite is only potential. Dental layouts, however, are somewhat more standardized.

The tendency to collective bargaining also makes it important for the appraiser to ascertain whether the wages actually paid in a given building conform to the customary or union scale. If they are below this scale, he should call attention to the possibility of an increase being necessary. In some cases union agreements may call for definite increases in the future; and the future costs to the employer of compliance with Social Security legislation must be considered.

VACANCIES

In the consideration of income, actual and potential, it is probably advisable to consider first the vacancy situation of the subject building in comparison with the average vacancy of the city as a whole and of immediately competing buildings. Vacancy figures by cities are compiled as of each January first, May first, and October first by the National Association of Building Owners & Managers and published in the succeeding monthly issue of the magazine *Skyscraper Management*. If vacancies are small, the possibility suggests itself of increasing rental rates, but this must be viewed with caution, as the happy situation may be due to the good luck of the building in having one or more tenants who have expanded into an abnormal proportion of the surplus space. This is the tendency of large corporations, but their occupancy constitutes an increasing hazard as the vacancy will radically increase if they should vacate.

The adequacy of rental rates is more difficult to ascertain. Spaces are never precisely comparable, particularly in different buildings. Competitive conditions are sharp, rates have fluctuated considerably in recent years; and the date when a lease was negotiated will be found to have a great deal to do with its rate. A high average rate might indicate efficient management, but there have been many instances where voluntary reductions have been given. In some cases these have been piece-meal but prevalent; in others, a

horizontal cut has been made during the depression. Where such adjustments have been made the tenants are likely to be far more satisfied and willing to renew than where an opposite policy has been followed which, in many instances, has bred a feeling by the tenant that he will move under any circumstances at the expiration of his lease.

Even under normal conditions, and particularly under present conditions of abnormal surplus space in nearly all cities, a building's income will be more secure if its lease expirations are staggered fairly evenly over the succeeding years than if bunched at any one time. Heavy expirations tend to soften the management's attitude on renewal rates.

A frequent cause of removal by larger tenants is the inability to secure additional adjoining space. The expiration dates or cancellation options in smaller leases adjoining larger and prosperous tenancies should, therefore, be carefully examined.

PRICING SPACE

It is no easy matter, even for a moderately experienced building manager, to judge the relative values of different office units. Some things are obvious: excessive depth renders space less usable; excessive ceiling heights are of little value. Other elements require more intimate knowledge: thus two open floors in different buildings, so long as each is occupied by a large tenant, may have the same utility. Yet, if they are vacated and it becomes necessary to divide them up, very different values may result: one floor may require a long corridor with right angles to provide access of elevators, toilets, or emergency stairs; the other floor may require only a short stub.

More important still is the fenestration. The two-window bay with column centers of from 16 to 18 feet permits the creation of the typical T-office unit (two one-window private offices and reception room) with no waste of space. A three-window bay or a narrower column spacing makes it impossible to create such a unit except through the use of a greater area of space. Light, exposure, outlook, orientation, ventilation, and noises are all factors of different relative importance in different cities and among different types of tenancy.

The "Sheridan-Karkow formula" of Leo G. Sheridan, manager of the One LaSalle and other Chicago buildings, and Waldemar Karkow, an engineer, is a thorough and intelligent attempt to provide a means by which relative values may be assigned to all the normal factors contributing to the utility of office space. Its application permits the relative pricing of all space within a building or between buildings. In the latter instance obviously the application of judgment is necessary, but it can be concentrated upon the appraisal of the relative values of a typical unit in each building. From that point the formula will be adequate.

The formula has been tested thoroughly in Chicago and in other cities, with results conforming quite generally to the judgment of experienced managers. Although relatively new, the ability to use it might from now on be considered as much a part of the appraiser's stock-in-trade as anything in "Inwood." The formula is set forth on page 61 of the *1933 Convention Proceedings* of the National Association of Building Owners and Managers, with further comments in the *1934 Proceedings* (page 151) and in *Skyscraper Management* for April and May, 1934, and October, 1935.

Percentage store leases have become general, but wide variations prevail in suggested rates of percentages for different business, e.g., George J. Beggs of

Portland suggested a minimum of 5% for women's wear, whereas the Chicago survey early in 1935 suggested 10% as a maximum. Here is a variation of 100%, which is not much help to the manager seeking the best terms possible. Store tenancy in office buildings varies from ordinary store tenancy because the building patronage may be a substantial factor. Such a situation justifies a higher rate of percentage than the conventional one. It is obviously likely to arise in the case of restaurants, cigar stands, and lunch counters, but its potentialities should also be considered in such cases as lingerie and hosiery shops in buildings with a large feminine tenancy.

OCCUPANCY EXPERIENCE

A multi-occupancy building in actual operation has more or less "going value." For the purposes of this discussion such going value may be assumed as the net loss of income between the date of completion and the date when normal occupancy is achieved. The determining factors in this, aside from the merits of the new building itself, are the proportions of vacancy in competing buildings, whether office occupancy is expanding, and the efficiency of the management in charge during this period. These factors are too variable to suggest a normal period or an amount proportionate to the cost of a building or its income. Some actual experiences, however, may be suggested:

Case 1: A building of about 400,000 square feet opened in the fall of 1924 with a 65% occupancy and attained a maximum occupancy of 94% after one year and three months.

Case 2: A building of 300,000 square feet opened in the fall of 1926 with an occupancy of 56%, and attained a maximum occupancy of 87% after one year and seven months.

Case 3: A building of 100,000 square feet opened in the spring of 1927 with a 47% occupancy; in one year and five months it was 85% occupied, after which occupancy declined, then recovered to 84% in two years and eight months after opening.

Case 4: A building of 240,000 square feet opened in the fall of 1927 with only a 13% occupancy and required two years and three months to attain 88% occupancy.

Case 5: A building of 240,000 square feet opened in the spring of 1928 with 41% occupancy and within five months achieved 84% occupancy, after which occupancy declined, but recovered to 83% two years and five months after opening.

Case 6: Another building of 370,000 square feet also opened in the spring of 1928 with a 76% occupancy and achieved 99% occupancy in one year and five months.

Case 7: A building of 280,000 square feet opened in the spring of 1929 with an occupancy of 14%, but after one year was 94% occupied, which percentage was maintained for one additional year, after which occupancy declined.

Case 8: A building of 370,000 square feet opened in the spring of 1930 with a 60% occupancy, after one year and five months attained 81% occupancy, which ratio it substantially held for another year.

In contrast, the occasional buildings opened since that decade are, practically speaking, still in their initial renting campaign.

Beyond the appraisal of the efficiency of the individual building management comes the question of general local policy as it affects the office buildings in a given city and is influenced by the cooperative action of those thus affected, such as the following:

1. Whether or not formal agreements with unions exist, the harmoniousness of employee relations, and the history of labor difficulties are factors which affect the city as a whole, although conditions vary somewhat between buildings.
2. The future trend of local taxes cannot be overlooked and the willingness and forcefulness of collective efforts to resist exactions.
3. There is a growing tendency on the part of municipal authorities to impose more stringent regulations and higher charges for such items as elevator inspections, permits for alterations, etc. This is motivated partly by the need for revenue and partly by the influence of contractors and labor organizations.
4. The intensity of competition between buildings varies in different cities but not entirely

in proportion to the surplus of space. It is also affected by local practices and customs and the strength of ownership. One or more buildings in receivership, organization, or weak hands will tend to demoralize the situation.

Future Competition

In conclusion, it may appear excessively forehanded to consider the possibility of future construction. However, the appraisal of a normal building will anticipate a life considerably exceeding the absorption period, of the present surplus. For this reason, therefore, some consideration may well be given to the type of future competition. A careful study will indicate the possibilities and limitations of renovating a given structure. At the present moment there is an active demand for better lighting and soundproofing, ordinarily possible in any structure, and for air-conditioning. Here, paradoxically, the older building with unusually high ceilings has an advantage over the more modern structure because a comprehensive system of ducts can be installed instead of individual units required where ceilings are already at a minimum height.

The modernization of the fifty-year old Insurance Building in Omaha is an outstanding example of what can be done along these lines.

Air-conditioning is expensive but, if not immediately competitively imperative in the modernzation program, the appraiser may fairly anticipate that, as in the case of electric refrigeration, the costs will gradually be reduced somewhat.

The obsolescence of some existing structures is due to the creation of very high buildings, having the double effect of actually darkening the older buildings and affording more attractive space because of its outlook. A zoning ordinance, severely restricting such construction in the future or at least requiring liberal set-backs, should influence the appraiser in the obsolescence assigned to an existing structure.

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Rules of Conduct—Commissions and Favors

Section 1. It is unethical for an appraiser to accept any commission, favor or emolument, in connection with the appraising of a property, other than a fair professional fee for the responsibility entailed and the work and expense involved.

—From Article II of the Institute's Rules of Professional Ethics.

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Depreciation for Insurance Purposes

(From the Point of View of the Insured)

By R. E. Thompson, M. A. I.

THERE are two objectives in the estimation of depreciation and values for insurance purposes, namely: (1) the determination of the amount of insurance to be carried, and (2) the adjustment of losses. Such work, it seems to me, is generally outside the typical real estate appraiser's field. It is more in the field of the structural engineer or architect; it is concerned with the estimation of construction and repair costs and physical conditions of structures, and not with market values. If the real estate appraiser is qualified along these lines he may undertake this work, but he follows a different line from that for estimating market or investment values. Though one department handles both of these types of appraising, it is recognized that insurance values and market values are distinctly different, and the two types of appraising are handled by different men who usually get different "values" for the same structure.

When the insurance man talks about "actual cash value," "true value," or "full value" he doesn't mean the same thing at all as the real estate appraiser, and this has led to considerable confusion when insurance men and real estate appraisers get together. "True value," as used by an insurance man, definitely is not "market value." It is a cost of reproduction less depreciation.

Determining Amount of Insurance to be Carried

The purpose of insurance is to transfer the risk and burden of replacing or repairing a damaged structure from the insured to the insurance company. The insured is not protected unless he carries sufficient insurance for this purpose. In determining the amount of insurance to be carried, the estimation of structural depreciation as distinct from the estimation of market values is more important for probable partial losses than for probable total losses.

If all losses were total losses and if all properties were held for their market value, insurance coinciding with the market value of a structure would be sufficient. However, most losses are partial ones, and many structures *must* be replaced if destroyed or repaired if damaged regardless of their market value. In cases of partial loss, the insured wishes to get as nearly as possible the full cost of repairing the partial damage and putting the building back in its former condition, while for total losses, settlements equal to market value may be satisfactory compensation.

Thus, in situations where losses probably will be partial, or where the building must be replaced regardless of its market value, the insurance carried frequently should be a higher percentage of cost of reproduction than in situations where losses probably will be total, if market value is less than cost of reproduction less depreciation. This may be especially true for large structures where total losses are quite improbable.

This state of affairs necessitates a study not only of cost of reproduction less physical depreciation of the insured structure, but also of the fire hazards of the neigh-

borhood and the structure, and the inflammability of the structure.

Condition Percent

The estimation of the cost of reproduction new of the structure to be insured is more important than the estimation of the condition per cent, for condition percentages are matters of opinion that can be reconciled more easily across the table in case of a loss than can the "facts" of cost of replacement or repair. (Condition per cent is the relationship of the "value," or cost of reproduction less depreciation, to the cost of reproduction new).

The estimates of cost of reproduction new should be supported by at least rough bills of material and unit prices, as these estimates will play an important part in the determination of the amount of insurance to be carried and in the adjustment of losses. A condition per cent is applied to the cost of reproduction new to determine the "value" (as used in insurance parlance).

The condition per cent should be estimated from inspection. Weakness or decay of the vital parts of the structure are more important than superficial deterioration. Condition of items such as paint, decoration, floors, etc., which have an important effect on the market value have little influence on the insurance value. Obsolescence also has little influence on the insurance value. Written notes on the inspection should be kept for use later in adjustment of losses.

The condition per cent for use in determining the amount of insurance to be carried will be based on the inspection and on the proportion of the *physical* life of the structure which has expired. (The *physical* life generally will run one and one-half to two times the *economic* life). For a normally maintained building the condition per cent will be based on straight line depreciation over the physical life with adjustments as indicated by the inspection, and for the probable type of loss.

The condition per cent to be used is a matter of opinion and not mathematics. Though no two appraisers may agree on the exact percentage, a spread of more than 20 points between competent, honest appraisers would be unusual. As adjustment of losses probably will be somewhat of a "horse trade" between the adjuster for the insured and the adjuster for the company, a spread of 10 to 20 points is not serious.

In determining the amount of insurance to be carried, the condition per cent should be a little high rather than a little low, with insurance carried for whatever percentage of the value so determined as is stated in the "average clause." The "average clause" states what percentage of "full value"—usually 80 per cent—is to be carried. It is safer to over-insure a little than to under-insure, in order to avoid the application of the "coinsurance clause" and to be sure of full protection.

The "coinsurance clause" applies if the insured does not carry 80 per cent (or whatever the average clause figure is) of the "full value"; that is, if the insured carries 80 per cent of 85 per cent of the "full value," he will be reimbursed for only 85 per cent of his losses, while if he carries 80 per cent of 100 per cent of the "full value" he will be reimbursed for 100 per cent of his losses up to the face value of the policy. The minimum condition for serviceable buildings should not be less than 50 per cent.

Examples

The following situations may be used as rough guides in estimating condition percentages.

Description of Structure	Condition Per Cent
New and until newness is dimmed..	100%

DESCRIPTION OF STRUCTURE	CONDITION PER CENT
Age equal to approximately ½ of expected total economic life; building structurally sound and in good condition	60%-70%
Serviceable building but of such condition (either economic or physical) that there is doubt whether or not the building should be repaired in case of substantial partial loss	50%
Serviceable office building (large)	minimum not less than 60%
Railroad bridge or similar structure	minimum not less than 60%
Serviceable building that must be repaired or replaced:	
Probable losses partial	minimum not less than 60%
Probable losses total	minimum not less than 50%

ADJUSTMENT OF LOSSES

The big difference of opinion in the adjustment of a loss probably will be in the estimates of the amount of damage done and of the costs of repairing the damage or replacing in kind. Replacing in kind means making good the damage without improving the structure. Here is where the bills of materials for the structure and the figures on local construction costs made up when the insurance was placed and periodically revised, will come in handy in order to back up the insured's claims. The compensation for the loss is largely based on cost to replace the insured structure in kind. One cannot be too categorical about just what a settlement is based on as it is likely to be somewhat of a "horse trade" in the last analysis. After the cost estimates have been thrashed out the question of condition per cent can probably be compromised with less difficulty, especially if the adjuster for the insured has made a reasonably informed estimate of condition and is backed up with notes based on a recent inspection.

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Rules of Conduct—Fractional Appraisals

Section 1. It is unethical for an appraiser to issue an appraisal report on a fractional part of a property unless he specifically states that the value reported is invalidated if used in making a summation appraisal of the property as a whole.

Section 2. In appraising the security for a loan it is unethical for an appraiser to issue a certificate covering anything less than all of the property designated as security for the loan.

Section 3. In particular, in appraising the security for a leasehold loan, it is unethical for an appraiser to issue a certificate of value of the improvement only, omitting the value of the leasehold, which latter may be positive, zero, or negative.

Section 4. It is unethical for an appraiser to issue an appraisal report on a property in which the total reported value is derived by adding together the values of fractional parts of the property unless it is shown that no incompatible conditions were assumed in making the fractional appraisals.

—From Article VI of the Institute's Rules of Professional Ethics.

Comment and Discussion

Wagner—ON NEIGHBORHOOD INCOME

THERE is little doubt that appraisals are becoming more scientific and therefore a sounder approach by the appraiser is necessary to obtain perfection in his conclusions. Through a phase of "social economics," I have found one such approach.

May I have it understood that "Neighborhood Income and Its Relation to Residential Values" primarily serves the residential field of appraising and as a contribution to valuation research is not put forth as the only factor in arriving at accurate appraisal conclusions. It is presented here as an important part of valuation procedure so that certain limits of value may be ascertained; and thus serves as a guide to mortgage lending institutions in making commitments. As a yardstick for review of wholesale appraisals its value lies in maintaining uniformity and serves a most excellent function in keeping a large staff within limits.

Residential appraising requires the study of social relations. The economic factors of society have their closest human contact in home ownership and social studies are bearing out the bold statement that national security is finding it broadest base in the protection of home ownership and home acquisition.

In these observations, let it be understood that no attempt is being made to expound the cause of regimentation, to classifying people into social levels, or to hinder the individual from expressing the fullness of his ability and thereby enhancing his personal welfare.

Life, however, is governed by the laws of nature and we may choose to call economic laws "laws of nature." Thru the operation of these laws people become shunted into classes of labor and positions of earning ability. One may or may not be the chooser of the walk of life which measures his or her earning ability or income. The carpenter with skill in his hands chooses and enjoys his craft; while the surgeon with expert knowledge and performance directs his training to the relief of human suffering. The possibility of earning more or less from the two professions receives little consideration at the time of choosing; but in our economic system there is a difference in dollar reward. To erect a home for the shelter of man is as noble a profession as surgical skill which removes pain from the human body. The basis of payment, however, is different and a difference in income results.

Based on what is a very obvious fact and what appears to be a simple fundamental, an appraisal approach has been developed which is sound for mortgage purposes. In the classification of appraisal methods this approach must be placed among the capitalization methods. Any process which has "income" as its base must be so classified. The procedure was developed from practical appraisal experience. In appraising the value of residential property in small towns, time and again the problem of over-improvement and misplaced buildings confronted the appraiser. Reproduction cost less depreciation and obsolescence did not give the answer. Comparative methods did not solve the problem for lack of comparison. Capitalization was also amiss. All the standard methods of appraisal procedure did not give the proper value to the properties. One factor however seemed always to be present. The people of the town grouped into sections according to their general level of income, and thus de-

veloped the thought that people of certain incomes lived in certain neighborhoods. In smaller towns the age level of improvements has little to do with values. After the first construction cost and the second sale of a property had taken place, values drift to the income level of the neighborhood.

Briefly stated the theory is "Property values range within certain limits and level themselves to those limits which the income of the people within the area will permit."

The question of sources of income does not enter into this discussion. Income is income regardless of its source. Salary, wages, dividends, annuities, rents, trust income, all are income insofar as we are applying the theory.

A certain city in Illinois was used for a test. The city was divided into neighborhoods by the system used by the Federal Housing Administration in the rating of neighborhoods. There was then ascertained the number of wage earners in the city and these were divided into groups or wage classes. The results were as follows:

70% of the wage earners had an annual income of $1800 or less.

15% of the wage earners had an annual income of $1800 to $3000.

10% of the wage earners had an annual income of $3000 to $5000.

5% of the wage earners had an annual income of over $5000.

The various groups were found to live in neighborhoods which coincided with their income. A few discrepancies appeared and each neighborhood had a street which appealed to one or more of the higher or lower income groups, but the values on these streets were commensurately higher or lower than the other streets. It was found that the original cost had some, but very little, relation to the value today and houses with the same reproduction cost had various values in different neighborhoods. Very often well-built new houses were found in old neighborhoods but the principal of pulling up or down according to general neighborhood income, however, had its effect.

During the general survey it was found that few houses were built in the past ten years, and the general age level of the improvements was thirty years. The test therefore was applied in a town which presented ideal conditions to test our theory.

In large cities we are making the same observations; and the general surveys now in the process of making appear to be proving our case.

Undoubtedly you are interested in the limits of value which appear as the result of our studies. They are:

Annual Income	*Range of Values*
$ 800 to $1200	$2000 to $3500
1200 to 1800	3000 to 4500
1800 to 2400	4000 to 6000
2400 to 3000	5000 to 8000
3000 to 3600	7000 to 12000
3600 to 4000	10000 to 15000
4000 to 5000	12000 to 20000
Over 5000	15000 up

First glance might cause one to remark on the range of values. The range is necessary for lack of uniformity in size and type of construction. Furthermore there is no attempt to be specific in amount but more to keep one's limit of value within reasonable bounds.

PERCY E. WAGNER, M. A. I.
Chicago, Illinois, January 6, 1936.

Kazdin—ON DEPRECIATION

THERE has been so much discussion of various "techniques" employed in valuation work that there is apt to be some confusion in the minds of those men who have made their reputation on a basis of good common sense, hard work, and

experience. Those of us who recognize certain advances in appraisal practice and try to keep abreast of helpful developments know that the exponents of the various "techniques" can argue most convincingly for their own theories. However, it remains for us to determine for ourselves the practicability of applying any new methods to our every-day problems.

Most of the argument concerns the handling of "depreciation." The appraiser is anxious to learn anything that is new and helpful for it is in the very nature of his profession to "keep up" to things. However, the use of a new "technique" must not in any way be permitted to dissipate the fundamental principles of careful examination of the property, proper analysis of income and expenses, careful study and correlation of all pertinent data, and a sensible application of all these in arriving at an estimate of value.

The experienced appraiser has a right to question seriously any "technique," no matter how strong the argument in its favor, if it dictates results contrary to his own sober judgment. I have used the word "technique" to describe methods of "proving" the estimate of value, because I believe that there can be very little difference of opinion among experienced men as to the factors that enter into the appraisal of a piece of property. It is only when they attempt to justify their conclusions that there is a great variance of method. I wonder if there isn't the latent danger that some appraisers may adopt a certain "technique" regardless of their own conviction about its fundamental soundness and applicability to appraising? I wonder whether there is developing a tendency for some appraisers to make an appraisal first and then employ a suitable "technique" to support it? I wonder, too, whether apparent progress in the rapid adoption of new methods may not result in more harm than good?

Now let us see if we can derive something of benefit from the maze of discussion on this subject. At one time or another appraisers have advocated the use of the "sinking fund" method including the so-called "Hoskold" variation, the Compound Discount Annuity method (Inwood), the "Straight Line" method, and what may be referred to as the "Declining Annuity" premise. For the purpose of this discussion, I am not including homes, industrial, public utility, or service properties, but limiting myself to investment income property of economic useful life.

The case for and against the use of the "sinking fund" method including the Hoskold premise has been so well presented and is so well known that I shall not take time to discuss it here. I have high regard for those men who have "championed" this technique, but I should like to put it as emphatically as I know how that, in my judgment, the use of the "sinking fund" method in real estate valuation work, generally, is not only illogical but dangerous and should be strongly discouraged. Too often this technique simply creates a method useful to those who juggle figures to support valuations which otherwise do not stand up. It is impressive and makes a report look mysteriously important, but in the interest of developing sound practice, I should like to see the use of this method, including the so-called Hoskold formula, absolutely eliminated.

As to the "Straight Line" method of providing for depreciation, based on the reproduction cost of the building, I believe it is unnecessary to point out the deficiencies of this method as applied to income property, although for certain types of property it may still prove a most sensible approach. Its use in income valuations places emphasis on the "cost factor" and

reduces the net return to the point where the capitalized value is fallacious.

Mr. Ayers J. du Bois, M. A. I., has recently done more than any other individual I know of in clarifying the atmosphere surrounding the use of various techniques. However, in his article, "Depreciation—Past and Anticipated," in the January issue of this magazine, he points out that the straight line method of depreciation based on the building value postulates a "straight line" decline in income. If that is true, then we must level much the same criticism against the use of a "straight line" declining income as a basis for our appraisals as we have used to show the deficiencies of the "straight line" depreciation based on building cost.

Mr. du Bois seems to favor the use of the Compound Discount Annuity premise (Inwood) as applied to a "straight line" declining income or other "fluctuating" income as may be forecast by the appraiser. We may readily admit that the income from a property will fluctuate during its life, but to attempt to forecast the manner of this fluctuation or to apply an annuity factor contemplating such fluctuations as expounded by Mr. Babcock in his book, *Real Estate Valuation,* creates a hypothesis which is not fairly applicable to real estate appraising and will give results not easily reconciled with a sound analysis of the practical problem. Income from real estate is speculative and we must not attempt to attach to it the factor of "sureness." Income may go up as well as down and its "fluctuations" are beyond the ability of anyone to forecast. It is more important for the appraiser to be sure that the net income which is being capitalized has been carefully arrived at and that there is sound basis for his choice of the rate of capitalization, than to concern himself with a dubious effort at forecasting a "certain" stream of annual returns from a property over a period of years.

This matter of the use of proper capitalization rates should receive our serious consideration and might well be the subject of research by the local appraisers and Chapters of the Institute, to determine, if possible, standard capitalization rates as applicable to various kinds of property in their respective localities. Mr. du Bois in his illustrations uses the same rate to make his points, even though his "depreciation" allowance is heavier in some cases than in others. Appraisers will say that as the income is adjudged to be safer, a lower rate of capitalization should be used. They argue that where a heavy charge is made against income, as in the case of the "straight line" method or a "declining" annuity method, the rate should be lower to reconcile the true value. Much can be said on this subject, but it seems reasonable to assert that if the fair return on real estate is adjudged to be 7½%, then the use of a 6% rate, even though it can be readily explained, distorts the picture. "Juggling" of rates should be frowned upon.

Determination of a fair return should presuppose that an allowance has been made for a return of the investment and the method used should be reasonable and practical. It is my experience that the Compound Discount Annuity premise comes closest to fulfilling the need of the appraiser for a sound and practical method of valuing income properties. It is more accurate than the "direct" capitalization, and by returning the capital invested in the building, satisfactorily solves the problem of "depreciation."

To those who state that it is illogical to compute the "present worth" of a "fixed" or "level" income over a period of years, may I say that it is not contemplated that the "present" return shall continue over

the "future" life of the property. We appraise the property today on a basis of today's income. The compound discount method of capitalization is a more reasonable approach than capitalization in perpetuity, in the case of economically sound properties.

I should like to illustrate the different results obtained by the use of various techniques as applied to a new building. The figures are from the article, "The Six Story Elevator Apartment Building," in the October issue of the Journal. The rent used would justify the cost of the property if a return of 7½% on the building investment and 5½% on the land value is deemed to be fair. The writer prefers the use of "split" rates in the "residual" process of valuing land or building. The point illustrated, however, is made if only one rate were used.

DATA:

Value of lot	$ 37,500
Cost of building	212,500
Total Cost	$250,000*
Economic life—40 years	
Gross Rent	$ 40,500
Allowance for vacancies	4,500
Stabilized Rent	$ 36,450
Fixed Charges—Operating expenses and Replacements	17,500
Net Rents	$ 18,950

ILLUSTRATION No. 1

"STRAIGHT LINE" METHOD

Net Rents	$ 18,950
Less depreciation—$212,500 × 2½%	5,313
Net Income	$ 13,637
Capitalized Value @ 7½%	$181,827
approximately	$182,000

ILLUSTRATION No. 2

COMPOUND DISCOUNT ANNUITY PREMISE (INWOOD)

Net Rents	$ 18,500
Less Interest on land—$37,500 × 5½%	2,063
Income imputable to building	$ 16,887
Inwood factor—7½%-40 years	× 12.5944
Building value	$212,682
Land	37,500
Total Value	$250,182
approximately	$250,000*

ILLUSTRATION No. 3

HOSKOLD ANNUITY PREMISE

(7½% RISK RATE—3% SAFE RATE)

Residual Income applicable to building as above	$ 16,887
Hoskold Annuity Factor—40 years—7½% and 3%	× 11.33
Value of Building	$191,330
Value of Land	37,500
Total Value	$228,830
approximately	$229,000

ILLUSTRATION No. 4

"STRAIGHT LINE" DECLINING ANNUITY PREMISE

Residual Income applicable to building as above	$ 16,887
Annuity Factor—(Compound discount annuity applied to a 2½% straight line declining income for 40 years)	× 9.1352
Value of Building	$154,266
Value of Land	37,500
Total Value	$191,766
approximately	$192,000

* In a normal competitive market with opportunity for free building, including the availability of adequate mortgage money, a property which is developed to its highest and best use, will not be worth more than its cost to reproduce. Moreover, the cost should be very close to the value of the property as computed by the income method, provided the rate of return used is one ordinarily expected by this type of investment.

In conclusion, I should like to make the following observations:

First, an appraiser is an invidual qualified by proper training, character and experience, who after careful study and analysis of all pertinent data, makes an estimate of the value of property.

Second, he determines his value *today* and may find ample reason to change his opinion tomorrow; he is not a prophet; he is not a fortune teller!

Third, appraising is not an exact science. Real Estate investments, except perhaps well-secured long term leaseholds, are "speculative" and do not have the quality of assured security.

Fourth, some portion of the income which an owner obtains from real estate is a return of his capital. This must be recognized, although it is usually ignored by the owner.

Fifth, the determination of the future life of the property will vary depending on its present condition, and on its soundness of construction at the beginning. The security and the returns will vary in direct ratio to the care exercised by the owner to keep the property in good condition and the management efficient.

Sixth, the Compound Discount Annuity Premise applied to *today's* earnings for the estimated economic life of a profitable and useful structure comes closest to meeting the practical requirements of valuing income property.

S. EDWIN KAZDIN, M. A. I.

New York City, February, 1936.

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Rules of Conduct—Relations with the Institute and Fellow Members

Section 1. No member shall conduct himself in such a manner as to prejudice his professional status or the reputation of the Institute.

Section 2. Any oral or written statement by a member with reference to his affiliation with the Institute that is not specific and exact shall be construed to be professional misconduct under Article VI, Section 2 of the By-Laws, and subject to immediate disciplinary action.

Section 3. It is unethical for a member to use the advantages of a salaried position to compete unfairly with other members of the Institute.

Section 4.—It is unethical for a member to injure falsely or maliciously, directly or indirectly, the professional reputation, prospects, or business of another member.

Section 5. It is unethical for a member to attempt to supplant another member after definite steps have been taken toward his employment.

Section 6. It is unethical for a member to compete with another member on the basis of professional charges by reducing his usual charges and in this manner attempting to underbid after having been informed of the charges named by the other member.

—From Article VIII of the Institute's Rules of Professional Ethics.

Current Articles

Appraisal of an $8,000-$10,000 Residence. John R. Hoyt, M. A. I. L. I. R. M. Jan. 1936, p. 5. $0.45. The president of the New York Chapter of the Appraisal Institute reviews items to be considered in a standard residence appraisal.

Depreciation and the income tax law. Harry J. Gerrity. R. E. R. Feb. 15, '36, p. 13-17. $0.45. Interprets allowable deductions for depreciation and obsolescence on buildings.

An engineer looks at rural America. Morris Llewellyn Cooke. J. L. E. Feb. '36, p. 1. $1.45. Man's treatment, control, and conservation of the soil largely determines the duration of his particular civilization.

The future of land subdivision. Harland Bartholomew. C. E. March '36, p. 158. A proposal that each city adopt a suitable constructive land policy looking toward rehabilitation of blighted areas while encouraging the citizens in each neighborhood to retain existing building and zoning restrictions.

Getting results from tax appraisals. E. Feb. 21, '36, p. 13. $0.35. Consideration of essential features of appraisals for tax reduction.

Income tax in reorganizations. Robert N. Miller. T. M. Mar. '36, p. 131, $0.70. Decisions involving interpretation of language in Revenue Acts concerning reorganizations.

Highway Connections for triborough bridge. J. C. Evans. C. E. March '36, p. 185. Details of highway connections for New York City's latest bridge project.

Low-cost houses. A. R. Feb. '36, p. 81-103. $0.70. A market study of the low-cost house and its architectural standards.

Making assets of tax-delinquent lands. Frank Moore. A. C. Feb. '36, p. 62. $0.55. Need for revision on laws applying to tax-reverted lands to permit proper land utilization as well as an improved assessment revenue situation.

Population and building construction: A revision. Frank J. Hallauer. J. L. E. Feb. '36. p. 12. $1.45. An important analysis of urban and rural population growth and its effect on building.

Real estate and construction. Walter W. Rose. M. R. Jan. '36, p. 26. $0.70. President of N. A. R. E. B. points out the common interests of Realtors and manufacturers.

Real property taxation in the fiscal system. Denzel C. Cline. T. M. Feb. '36, p. 71. $0.70. Real property taxation as a source of revenue in the light of recent tax developments.

Record of long-term real estate securities. Ernest A. Johnson. J. L. E. Feb. '36, p. 44. $1.45. What real estate bond investors have received.

Results of the financial survey of urban housing. David L. Wickens. J. L. E. Feb. '36, p. 60. $1.45. Summary of information regarding factors involved in urban housing such as cost, age, family income, ownership, financing, secured through the Financial Survey.

Western land policies and ownership. Roland R. Renne. J. L. E. Feb. '36, p. 33. $1.45. The increasing concentrated absentee ownership in Montana will permit adjustments for more efficient operating units.

Why and how of 1936 Building. Bernard L. Johnson. R. E. Feb. 29, '36, p. 5. $0.30. Analysis of factors indicating building volume for 1936.

The full names of the magazine indicated by initials on these pages are given below:

A. C.	American City	Monthly
A. R.	Architectural Record	Monthly
E.	The Economist	Weekly
J. L. E.	Journal of Land and Public Utility Economics	Quarterly
L. I. R. M.	Long Island Realty Magazine	Monthly
M. R.	Manufacturers' Record	Monthly
R. E.	Real Estate	Weekly
R. E. R.	Real Estate Record	Weekly
T. M.	Tax Magazine	Monthly

Copies of the magazines in which these articles appear may be secured from the Library of the National Association of Real Estate Boards, 22 W. Monroe St., Chicago, Ill. The price listed includes the price of the magazine and a small service charge for mailing and postage. Subscriptions may also be placed through the National Association.

New Books

An annotated list of new publications dealing with general and specific topics of interest to the real estate appraiser appearing currently in *The Publishers Weekly*. The Library of the American Institute of Real Estate Appraisers, 22 W. Monroe St., Chicago, Illinois, can secure these publications for you at the prices listed.

American government and politics; National government. Charles A. Beard. 7th ed. 533 p. N. Y., Macmillan. $2.75.

American petroleum industry; A survey of the present position of the petroleum industry and its outlook toward the future. 243 p. O '35, N. Y., American Petroleum Inst., 50 W. 50th St. $1.00.

Bankers, statesmen, and economists. Paul Einzig. 267 p. O '35. N. Y. Macmillan. $3.50. Essays on current economic problems in Europe and America.

Britain in depression; A record of British industries since 1929; prepared by a research committee of the economic science and statistics section of the British Association. 418 p. N. Y., Pitman. $3.00.

Business barometers used in the management of business and investment of money; a textbook on applied economics. Roger W. Babson. 370 p. D '35. Babson Park, Mass., Babson's Reports, Inc. $3.00.

Business offices; opportunities and methods of operation. G. L. Harris. 248 p. N. Y. Harper. $2.50. Describing the operation and procedure in all of the typical departments of a business organization—for the student or executive.

Cartel problems. Karl Pribram. 287 p. (Inst. of Economics ser.) Wash., D. C. Brookings inst. $2.50.

Central administration of economics and social statistics of the State Planning Commission of the U. S. S. R. The U. S. S. R. in figures, 1935. 323 p. N. Y. Bookniga Corp. $1.00. Comparative statistics on the U. S. S. R., covering several years. A brief handbook based upon "Socialist Construction in the U. S. S. R."

Coal and men; an economic and social study of the British and American coal fields. Harold M. Warkins. 460 p. N. Y., Peter Smith. $5.00.

Commodity control in the Pacific area; a symposium on recent experience. W. L. Holland, ed. 452 p. (Inst. of Pacific Relations pub'n) Stanford University, Cal., Stanford Univ. Press. $5.00. Discussions of the various schemes of economic control exercised over a score of everyday commodities in the countries of the Pacific.

Contract arithmetic. Jacob Greenberg, and Emma Austera. 4th yr.; 2v. '35. N. Y. Nelson. $0.64 each.

Economics of Alfred Marshall, The. H. J. Davenport. 481 p. Ithaca, N. Y. Cornell Univ. Press. $4.00.

Economics, sociology, and the modern world; essays in honor of T. N. Carver. Norman Edwin Himes, ed. 339 p. Cambridge, Mass. Harvard. $5.00.

Equipment and fittings for small dwellings. International Association for Housing, ed. 2v. (text in English, French, German) 172 p. N. Y. $5.00.

Ethics of competition and other essays. Frank Hyneman Knight. 363 p. N. Y. Harper. $3.00. Selected essays by a professor of economics of the University of Chicago.

Federal Taxes on estates, trust, and gifts. Robert H. Montgomery and Roswell Magill. 468 p. N. Y. Ronald Press. $5.00.

General theory of employment, interest, and money. John Maynard Keynes. Harcourt Brace. $2.00. "Everything Mr. Keynes has written has directly affected current economics."

George Washington and the West. Charles Henry Ambler. 278 p. Chapel Hill, Univ. of N. C. $4.00. Washington as a surveyor, then in the French and Indian War (based on little known contemporary newspaper accounts) and as the owner of 58,000 acres beyond the Alleghenies after the war.

Governments and money; with special reference to financial legislation in the United States and the establishment of an International Standard of Trade. Edward Jerome. 372 p. Bost. Little, Brown. $2.50. A discussion of the realities of the world's fiscal structure and of the basic economic principles governing money.

Growth and distribution of population. S. Vere. Pearson, M. D. 448 p. N. Y. Wiley. $4.00.

Heating and air conditioning manual. Louis Allen Harding. 268 p. Buffalo, N. Y., Author. Prudential Bldg. $1.50.

History of Florida. Margaret Carrick Fairlie. 299 p. Jacksonville, Fla. Author. $1.20.

History of Mississippi, The; from Indian times to the present day. Pearl Vivian Guyton. 376 p. Syracuse, N. Y. Iroquois Pub. Co. $1.00.

History of Oklahoma. James Shannon Buchanan and Edward Everett Dale. 3rd ed. 512 p. Evanston, Ill. Row, Peterson. $1.25.

History of Texas. Clarence Ray Wharton. 480 p. Dallas, Turner Co. $2.00.

Home owners' hand book. C. B. Smith. 256 p. N. Y. Housing Pub'n., 25 W. 43rd St. $0.50. A comprehensive, practical guide to the planning and construction of the house and garden.

Interstate Commerce Commission; a study in administrative law and procedure. Isaiah Leo Sharfman. pt. 3, v. B. 847 p. N. Y. Commonwealth Fund. $5.00. This volume presents a study of the Commission's most important function.

Lectures on political economy. Knut Wicksell. v. 2, Money; ed. by Lionel Robbins. 244 p. N. Y., Macmillan. $2.25. An analytical and critical discussion of the theories of money and credit.

Made in U. S. A. Mrs. Ryllis C. A. Goslin, ed. 38 p. N. Y. Foreign Policy Association. $0.35. A clear and simple outline of America's foreign trade problems, with full consideration given to both high tariff policies and low tariff policies.

Making of Illinois, The; a history of the state from the earliest records to the present time. Irwin F. Mather. rev. ed. 274 p. Chicago. A. Flanagan. $0.75.

Managing the people's money; an analysis of banking policies and banking control and their relation to economic stability. 589 p. New Haven, Conn. Yale. $4.50.

Mathematical theory of finance. Kenneth Powers Williams. 292 p. N. Y., Macmillan. $2.75.

Money. Edwin Walter Kemmerer. 418 p. N. Y. Macmillan. $2.50.

My half-century in life insurance. William Alexander. 233 p. N. Y., Harper. $3.00. A business biography, telling of the author's sixty-six years with the Equitable Life Assurance Society.

National Economic security. Arthur Barto Adams. 328 p. O '35. Norman. Univ. of Okla. Press. $2.50. An analysis of America's present economic position, its recent recovery measures, and the unsolved dilemma resulting from their partial failure.

On quantitative thinking in economics. Gustav Casel. 188 p. N. Y. Oxford. $2.25.

Outline of European economic developments, An. Robert Henry Soltau. 321 p. N. Y. Longmans. The author is professor of history in the American University of Beirut.

Organization and management of a business enterprise. Karl Dickson Fernstrom and others. 714 p. N. Y. Harper. $4.25. A text for an introductory course in business management.

Prices in the trade cycle. Gerhard Tintner. 204 p. N. Y., G. E. Stechert.

Profits and social security; a study of costs, claims and controls under capitalism. Nelson Burr Gaskill. 278 p. N. Y. Harper. $3.50. A plea for the operation of capitalism on a tolerable and equitable basis.

Report of the national survey of potential productive capacity. 381 p. N. Y., New York City Housing Authority, 10 E. 40th St. $4.00. The results of an economic survey prepared under the sponsorship of the New York City Housing Authority and Works Division of the Emergency Relief Bureau of New York City.

Social-economic security by constitutional means. Hans Mayer Daxlanden. 255 p. Phil., Dorrance. $2.00.

Social security in the United States; an analysis and appraisal of the Federal Social Security Act. Paul Howard Douglas. 395 p. N. Y., Whittlesey House. McGraw-Hill. $3.00.

State control of local finance in Massachusetts. Royal Stewart Van de Woestyne. 196 p. (Harvard economic studies No. 49) '35. Cambridge, Mass., Harvard. $2.50.

Russian financial system, The. W. B. Reddaway. 116 p. N. Y. Macmillan. $2.25. A survey of the principles and functions of the monetary and financial system of Soviet Russia in 1934.

Tax systems of the world; a year book of legislative and statistical information including all of the states of the United States. Tax Research Foundation. 6th ed. 365 p. Chicago, Commerce Clearing House, 205 W. Monroe St. $15.00.

Traffic and trade; an introduction to the analysis of the relationship between the daily habitual movement of people and their trade activities in the markets. John Paver and Miller McClintock. 145 p. N. Y. McGraw-Hill. $4.50. A study sponsored by national advertisers and national advertising agencies through their association.

What Veblen taught; selected writings. Thorstein B. Veblen; ed. by Wesley C. Mitchell. 554 p. N. Y., Viking. $3.00. Selections from the most significant writings of Veblen, which serve as an introduction to his work and ideas.

World history today. Albert Edward McKinley and others. 881 p. N. Y. Amer. B'k. $1.92.

Digest of the Minutes

The Governing Council of the American Institute of Real Estate Appraisers convened at the Washington Hotel in Washington, D. C. on January 16, 1936 at 10:00 A. M. President Harry E. Gilbert presided. The following members were present:

Harry E. Gilbert, Baltimore, Md., President
K. Lee Hyder, Milwaukee, Wis.
E. L. Ostendorf, Cleveland, Ohio
Fenwick B. Small, Brooklyn, N. Y.
Frank H. Taylor, East Orange, N. J.
Arthur C. Houghton, Washington, D. C.
W. H. Ballard, Boston, Mass.
Hill Ferguson, Birmingham, Ala.
Ralph D. Baker, Camden, N. J.
R. W. Patton, San Antonio, Texas
Maurice F. Reidy, Worcester, Mass.
George L. Schmutz, Los Angeles, Cal.
Ralph V. Field, Galesburg, Ill.
Newton C. Farr, Chicago, Ill.
George W. Drennan, Detroit, Mich.
Henry S. Miller, Dallas, Texas
Maurice R. Massey, Philadelphia, Pa.
Frank M. McCurdy, Brooklyn, N. Y.
Cuthbert E. Reeves, Washington, D. C.
Henry G. Zander, Chicago, Ill.
Herbert U. Nelson, Chicago, Ill., Secretary
Harry Grant Atkinson, Chicago, Ill., Director of Activities.
Philip W. Kniskern, Philadelphia, Pa.
Mark Levy, Chicago, Ill.

The following were present by invitation:

John R. Hoyt, Brooklyn, N. Y.
Warren L. Morris, Cleveland, Ohio.

On motion of Mr. Ostendorf, seconded by Mr. Ballard, and unanimously carried, the reading of the minutes of the meeting held in Atlantic City, N. J. on October 24, 1935 was waived.

Report of the Admissions Committee

E. L. Ostendorf, Chairman of the Admissions Committee, presented a summary of the work of the Admissions Committee for the year 1935, including recommendations on applications considered by the Admissions Committee at its meeting on January 15, 1936.

Number of applications acted upon..	368
Number of members elected..........	136
Number of Limited Members elected.	20
Number of applications rejected or withdrawn	52

On motion of Mr. Ostendorf, seconded by Mr. Baker, and unanimously carried, the following candidates were elected to Member Grade:

John M. Hutchinson—Waterbury, Conn.
John W. Roberts—Indianapolis, Ind.
Curt C. Mack—St. Louis, Mo.
Arthur Brooks—Boston, Mass.
J. Alton Lauren—Chicago, Illinois.
J. Russell Lambert—Paterson, N. J.
Wm. G. McDowell—Plainfield, N. J.
J. S. Edwards—Beaumont, Texas.

On motion of Mr. Ostendorf, seconded by Mr. Taylor, and unanimously carried, sixteen additional candidates were elected to the Member grade subject to stated conditions.

On motion of Mr. Taylor, seconded by Mr. Baker, and unanimously carried, Richard A. Hurley, Providence, R. I., was transferred from Limited Member Grade to Member Grade, subject to a satisfactory examination to be given by Mr. Ballard or Mr. Reidy.

On motion of Mr. Drennan, seconded by Mr. Baker, and unanimously carried, James Rosensohn, Elizabeth, N. J., was elected to the Limited Member grade; and three additional candidates were elected to the Limited Member grade subject to stated conditions.

On motion of Mr. Ostendorf, seconded by Mr. Taylor, the recommendations of the Admissions Committee to defer action on nineteen applications, to withdraw one application, and to reject eight applications, were unanimously approved.

Report of the By-Laws Committee

Philip W. Kniskern, Chairman of the By-Laws Committee, presented proposed amendments to the By-Laws. After discussion Mr. Kniskern moved the adoption of the amendments, seconded by Mr. Miller, and carried with George L. Schmutz, Los Angeles, California, and Mr. Mark Levy, Chicago, Illinois, dissenting, changing the word "Limited" to the word "Associate" wherever it appears in the By-Laws.

The adoption of the following amendment to the By-Laws was moved by Mr. Kniskern, seconded by Mr. Ostendorf, and unanimously carried:

> ARTICLE VII, SECTION 3. Each President of the Institute, upon the expiration of his term of office, shall, for a term of five years thereafter, become an ex-officio member of the Governing Council with the privilege of voting. Such ex-officio memberships shall be in addition to the minimum and maximum numbers of members as set forth in Section 1, Article VII, of the By-Laws.

Mr. Ballard moved, seconded, and unanimously carried, that the President appoint a committee of five to investigate the proposal made by Mr. Kniskern to establish a permanent trust fund for the Institute and to present definite recommendations, including the necessary changes in the By-Laws, to effect such a plan.

Report of the Discipline Committee

W. H. Ballard, Chairman of the Disciplinary Committee, presented a written report which

was accepted and filed on motion of Mr. Taylor, duly seconded, and unanimously carried.

Report of the Ethics Committee

Mr. Frank H. Taylor, Chairman of the Ethics Committee, reported that no further business had come before the Ethics Committee since making the detailed written report and recommendation to the Governing Council in Atlantic City on October 23.

Report of the Public Relations Committee

Ralph Baker, Chairman of the Public Relations Committee, made a brief report supplementing his Annual Report made at the Atlantic City meeting on October 23. Plans for 1936 were indicated to continue the contacts established during 1935.

Report of the Committee on Local Chapters

Cuthbert Reeves, Chairman of the Local Chapters Committee, reported that no specific comments on the various local chapters were necessary. No additional chapters have been formed.

Correspondence

Mr. Atkinson presented a letter from Mr. R. S. Whitten of Shreveport, La., which objected to the ads of appraisers, both Members and non-Members of the American Institute of Real Estate Appraisers, in the National Real Estate Journal. On motion of Mr. Reeves, seconded by Mr. Ballard, the question was referred to the Public Relations Committee.

A previous request from the New York Chapter that all applications for membership originate through the Chapter was withdrawn at Mr. Hoyt's request.

The meeting adjourned at 1:00 P. M.

Second Meeting of the Governing Council

The Governing Council of the American Institute of Real Estate Appraisers convened at the Washington Hotel in Washington, D. C., January 16, 1936, at 2:00 P. M. President Harry E. Gilbert presided.

Report of the Education and Research Committee

Mr. Hyder, Chairman of the Education and Research Committee, re-submitted the formal report of his committee presented at the Atlantic City Meeting, together with a supplementary report and recommendations for future policies, for approval. He presented the background and development of the case-study courses at the University of Chicago last summer, and explained the purpose, administration, and the financial arrangements for the proposed Real Estate Institute. Mr. Schmutz explained a chart showing the relationships between the American Institute of Real Estate Appraisers, the National Association of Real Estate Boards, courses which may be presented by other Divisions or Institutes, and the proposed Real Estate Institute. Both the outline and the chart contemplated that none of the funds of the American Institute of Real Estate Appraisers nor the income from courses would be used by the National Association of Real Estate Boards or by any other Divisions or Institutes, but would be kept intact for the exclusive use of the American Institute of Real Estate Appraisers.

After further discussion, on motion of Mr. Hyder, seconded by Mr. Reidy, and unanimously carried, the Committee report and the following supplementary report were approved:

The Education and Research Committee submitted its formal report under date of October 22, 1935, for consideration at the Atlantic City Convention, action being deferred at that time for reasons with which you are familiar. I am, therefore, resubmitting this report and, to conserve time, am presenting the more important matters for discussion and action, together with the Committee's recommendations.

1. *Policies for future courses in appraisal practice:*

(a) Courses be confined entirely to those sponsored officially by the Institute and given under the direction of the Education and Research Committee.

(b) "Text Material" to be made available only to students of Institute's own courses, excepting at the discretion of the Education and Research Committee for further development.

(c) Courses to be developed as rapidly as ways and means may be found, or necessities arise, in general conformity with the plan set forth in the attached tentative syllabus.

(d) Instructors for all courses to be selected by such means as the Education and Research Committee may determine as essential to the high standards required—in general such instructors as far as possible to be obtained from the membership of the Institute, but with latitude granted where specialized qualifications are desirable.

2. *The "Chicago University Plan" set up in the report be adopted in principle as a long range program covering particularly the following:*

(a) The creation of the "National Real Estate Institute" be approved in principle, with recommendations to the Board of Directors of the National Association of Real Estate Boards, carrying with such recommendation the following:

(1) The appointment by N. A. R. E. B. of a General Educational Committee to be composed of an equal number of members from each Division and nominated by the different Divisions, such G. E. C. to act in an advisory capacity only in the promulgation of joint educational programs.

(2) The ultimate creation of an Administrative Board to direct activities of the National Real Estate Institute as conducted at the University of Chicago, such Board to consist of one member from each Division and appoined by each Division

and drawn from its Educational Committee, together with a suitable number so appointed by the University of Chicago (which, under its regulations, will require numerical control).

The Committee's intent in this recommendation is to approve the idea of the "National Real Estate Institute" but to retain control by the respective Divisions at all times of their educational program and educational funds, whether or not these would form a part of the work under the proposed National Real Estate Institute. In other words, the adoption of the "Chicago University Plan" would not prevent the presentation of courses in appraisal practices at any other educational institutions if such were found desirable.

(c) The Appraisal Research Foundation be approved in principle as a cooperative endeavor with other appraisal organizations, and that the Chairman of the Education and Research Committee be authorized to meet with the representatives of such other organizations and the authorities of the University of Chicago for the purpose of formulating a definite program, to be ultimately submitted for formal action by the Governing Council.

For your information, approval in such form has already been obtained from the Valuation Committee of the American Society of Civil Engineers and the Committee on Appraisal Practices of the Association of Appraisal Executives, in both instances final decision resting upon the outcome of the joint Committee meetings, which you are asked to approve at this time.

3. *The creation of a National Committee on Appraisal Terminology:*

Approval has already been obtained from the American Society of Civil Engineers, the Association of Appraisal Executives, and the American Institute of Accountants.

Affirmative action on certain of the above questions would carry with it the necessity for providing a proper budget.

In order to further the education program for the coming year it is urged that formal action be taken on all of these matters.

On motion of Mr. Ostendorf, seconded by Mr. Ballard, and unanimously carried, the president appointed a committee consisting of Mr. Reidy, Mr. Hyder, Mr. Schmutz, and Mr. Ostendorf, to confer with the Executive Committee of the National Association of Real Estate Boards and present the attitude of the Governing Council with reference to the proposed correlation of educational activities of the various Divisions and Institutes in general accord with the formal action upon the report of the Education Committee as set forth above.

REPORT OF THE TREASURER

The following report of the Treasurer, Mark Levy, was approved on motion by Mr. Ostendorf, seconded by Mr. Ballard, and unanimously carried:

A. General Financial Statement as of December 31, 1935

RECEIPTS	*Actual*	*Budgeted*
M. A. I. Dues—1935	$ 5,761.13	$ 5,277.01
Limited M. A. I. Dues—1935	167.50	120.00
Affiliate Dues—1935	1,203.74	1,118.74
Admissions Fee Account	645.00	590.00
Journal Account—Member Subscribers	3,325.00	3,192.00
Journal Account—Non-Member Subscribers (338)	2,166.74	1,399.00
Sale of Forms	20.35	....
Sale of Emblems and Sundry Income	54.08	50.50
Staff Travel—Refund	86.55	....
Education Committee — Terminology Book Sales	86.00	142.00
	$13,516.09	$11,889.75

EXPENDITURES:		
Dues Refunds & Transfers—Affiliate	$ 188.30	$1 155.00
Dues Refunds & Transfers—Limited	2.50	....
Miscellaneous Expense	524.11	382.16
Admissions Fee Account	776.50	738.48
Journals	3,070.69	3,042.30
Postage	310.95	264.98
Printing & Stationery	589.58	595.88
Salary Fund Account (49% of General Income)	6,509.02	5,712.41
Rent Fund Account (7% of General Income)	929.87	816.07
Travel	281.84	182.29
Education Committee — Terminology Books	448.64	563.31
Education Committee—General	285.50	1,064.85
	$13,917.50	$13,517.73

Excess of Expenditures over Receipts in 1935	$ —401.41
Operating surplus from Summer School	2,665.47
Operating surplus for 1935	$ 2,264.06
Surplus, January 1, 1935	3,190.91
Net Balance, December 31, 1935	**$ 5,454.97**

SUMMARY OF SURPLUS:

Cash and Certificates of Deposit	$ 5,929.97
Less: Funds on Deposit	475.00
Net Balance, December 31, 1935	$ 5,454.97

SALABLE ASSETS:

51 M. A. I. emblem pins at cost	$113.73	
30 Limited M. A. I. emblem pins at cost	84.00	
5 watch chain pendant emblems at cost	20.00	
		$ 217.73
300 sets of Text Material at $10.00		$ 3,000.00
250 Appraisal Terminology books at $1.00 each		$ 250.00

MEMBERSHIP REPORT

The following membership report was presented:

	December 31, 1934	*December 31, 1935*
Member Grade	310	426
Limited Member Grade	1	18
Affiliate Grade	238	208
	549	652

PRESIDENT REIDY ASSUMES THE CHAIR

President Gilbert retired from the Chair and requested President-elect Reidy to assume the Chair in order that the items of business concerning activities during 1936 might be considered. Accordingly, Mr. Reidy assumed the Chair, and moved that a rising vote of thanks be extended Mr. Gilbert for his services to the Institute. Seconded and approved.

BUDGET FOR 1936

Mr. Ostendorf moved, Mr. Ballard seconded, and unanimously carried, that the following budget be approved with the further stipulation that the Institute operate within its current income.

ESTIMATED INCOME:

Dues from present Members (417).

299 @	$15.00	$4,485.00	
41 @	13.33	546.53	
2 @	12.08	24.16	
6 @	8.33	49.98	
32 @	6.67	213.44	
1 @	5.42	5.42	

Journal subscriptions already paid by the following to December 31, 1936:

2 @	$ 9.17	$ 18.34	
11 @	8.33	91.63	
1 @	5.83	5.83	
19 @	3.33	63.27	
3 @	1.67	5.01	
			$5,508.61

Dues from present Associate Members (15)

9 @	$ 8.75	$ 78.75	

Journal Subscriptions already paid by the following to December 31, 1936:

2 @	$ 8.75	$ 17.50	
3 @	3.75	11.25	
1 @	2.50	2.50	
			$110.00

Dues from present Affiliates:

141 @	$ 5.00	$ 705.00	

Journal Subscriptions already paid by the following to December 31, 1936:

2 @	$ 9.58	$ 19.16	
3 @	9.17	27.51	
4 @	8.75	35.00	
2 @	8.33	16.66	
4 @	7.50	30.00	
3 @	6.67	20.01	
3 @	6.25	18.75	
1 @	5.83	5.83	
1 @	5.42	5.42	
1 @	4.17	4.17	
1 @	3.33	3.33	
1 @	2.92	2.92	
1 @	2.08	2.08	
			$895.84

Total dues from present Members..$6,514.45

Dues from estimated New Members:

20 @	$15.00	$ 300.00	
20 @	11.25	225.00	
30 @	7.50	225.00	
20 @	3.75	75.00	
			$825.00

Dues from estimated New Associate Members:

10 @	$ 7.50	$ 75.00	
20 @	5.00	100.00	
20 @	2.50	50.00	
			$225.00

Dues from estimated new Affiliate Members:

10 @	$ 5.00	$ 50.00	
			$50.00

Total estimated dues from Present Members and New Members				$7,614.45
Admissions Fee Account				$ 500.00
Journal Subscriptions:				
Present Members	531 @	$5.00	$2,655.00	
New Members	100 @	5.00	500.00	
Present Non-Members	325 @	5.00	1,625.00	
New Non-Members	100 @	5.00	500.00	
				5,280.00
Sale of Terminology Books: 200 @ $1.00 each				200.00
TOTAL ESTIMATED INCOME—1936				$13,594.45

ESTIMATED EXPENDITURES:

Dues, Refunds and Transfers.	$ 100.00
Admissions Account	500.00
Journals—Printing and Postage	3,000.00
Postage	300.00
Printing and Stationery (General)	600.00
Travel	500.00
Administrative Services, including executive, stenographic and clerical services plus office facilities.........	7,000.00
Miscellaneous (General)......	500.00
TOTAL ESTIMATED EXPENDITURES—1936	$12,500.00
Estimated 1936 Operating Surplus	**$1,094.45**

Mr. Ostendorf moved, seconded by Mr. Gilbert, and unanimously carried, that the Finance Committee analyse the budget and consider suggestions and make recommendations for increasing income and reducing expenses without curtailing present services.

Mr. Houghton moved, seconded by Mr. Gilbert, and unanimously carried, that an Educational Account be established on the books of the Institute and be carried as a continuing account, and be opened at present by transferring $1,500.00 from the surplus of the Institute instead of reinstating the account with the surplus of $2,665.47 from the Courses at the University of Chicago in 1935.

MEMORIAL TO PAST PRESIDENTS

During President Gilbert's absence Mr. Ostendorf presented the report of the Committee considering suitable memorials to the Past Presidents of the Institute. On motion of Mr. Baker, seconded by Mr. Patton, Mr. Ostendorf was authorized to proceed with purchasing of the memorial he recommended, at his discretion, with the further suggestion that he confer with the Finance Committee in regard to funds for payment.

CONFIRMATION OF COMMITTEE APPOINTMENTS

On motion of Mr. Taylor, duly seconded, and carried, the Committee appointments as published in the January issue of the Appraisal Journal were unanimously confirmed.

MEMBERSHIP CERTIFICATES

Mr. Houghton moved, seconded, and unanimously carried, that Members who have received Membership Certificates with the qualifying phrase regarding the size of the town, etc., be sent unqualified Membership Certificates.

There being no further motions or actions, the meeting adjourned at 6:00 P. M.

By-Laws of the American Institute of Real Estate Appraisers

(As Amended January 16, 1936)

ARTICLE I

Objects

SECTION 1. The objects of the Institute shall be:

A. The advancement of the science of appraising and evaluating interests in real property;

B. The fostering of knowledge, of integrity, and the fair and accurate judgment of value of real property;

C. The professional advancement of its members;

D. The promotion of technical and scientific discussion among its members;

E. The promotion and propagation of sound, proper, and ethical practices;

F. The promotion of adherence to the Standards of Practice and Code of Ethics of the American Institute of Real Estate Appraisers;

G. The certification and identification of experienced and competent appraisers.

ARTICLE II

Membership

SECTION 1. Membership in the Institute shall be divided into three grades—Members, Associate Members, and Affiliates.

SECTION 2. The grade of Member is open to any individual who holds, and remains in good standing in, any form of membership in a Member Board of, or an Individual Membership in, the National Association of Real Estate Boards, and who:

A. Is not less than 30 years of age;

B. Is actively engaged in a responsible capacity and in such manner that his regular duties involve the appraisal of real property. He shall have been actively so engaged with a good record for at least eight years, of which not more than three years may have been in allied work, or be represented by university or college work acceptable to the Institute;

C. Satisfactorily establishes his knowledge of and his ability, methodically and analytically, to appraise individual residence properties, multi-family dwellings up to 100-family apartments, typical retail and income properties, and other typical properties ordinarily found in a city or town of one-hundred thousand population.

D. Satisfactorily passes a written or oral examination (either or both) given by the Institute.

E. The Governing Council may from time to time establish and proclaim specifications, methods of investigation, and rules for the classification of Members such as: Urban appraiser, Farm appraiser, Industrial property appraiser, or such other classifications as it may determine, provided that such specifications and rules for investigations shall assure equivalent standing and ability in the specialized field as is set out for the grade of Member elsewhere in these by-laws, and provided further that any certificate or other evidence of Membership shall bear appropriate words to indicate the variance from the standard specifications as outlined in Section 2, paragraphs A to D of this Article.

SECTION 3. The grade of Associate Member is open to any individual, who may otherwise qualify under these by-laws and also to those who are in the government service, in the employ of an insurance or other financial and lending institution, either as a home office supervisor or traveling supervisor of appraisals and lending, or any other person who may not be eligible for active membership in a local Member Board of the National Association of Real Estate Boards, and who:

A. Is not less than 25 years of age:

B. Is actively engaged in a responsible capacity and in such manner that his regular duties involve the appraisal of real property. He shall have been actively so engaged with a good record for at least five years, of which not more than two years may have been in allied work, or be represented by university or college work acceptable to the Institute:

C. Satisfactorily establishes his knowledge of and his ability to appraise individual residential properties, multi-family dwellings, typical retail and income properties, and other typical properties found in a city or town of ten thousand population; OR

D. Satisfactorily establishes his ability to appraise specialized or limited types of properties such as industrial property, farms, etc.;

E. Satisfactorily passes a written or oral examination (either or both) given by the Institute.

F. The Governing Council in issuing a membership certificate to any individual qualified for an Associate Membership under sub-section C of this Section 3 shall clearly state his limited qualification and that he has demonstrated only his knowledge of and ability to appraise typical properties in cities and towns of ten thousand population; and certificates issued to those elected under subsection D of this Section 3 shall clearly state the special line or lines of their experience and approval.

SECTION 4. The grade of Affiliate is open to any individual who, upon application, is approved by the Governing Council.

SECTION 5. No individual may be admitted to the grade of Member in the Institute unless his application be specifically approved by the Real Estate Board of which he is a member.

In the case of applicants for admission to the grade of Member who are prominent professionally and whose principal place of business and principal appraisal activities are in a territory not included in the jurisdiction of any one Member Board of the National Association of Real Estate Boards; or where a member Board of the National Association does not exist; or where such applicant is a salaried employee of any unit of government; or where such applicant is a salaried employee of a financial or lending institution and whose work normally covers a wide and extensive territory—the Governing Council may waive the requirement of membership in a member Board of the National Association of Real Estate Boards as set forth in Sections 2 and 3 of this Article, and if otherwise qualified, admit such applicants to the grade of membership to which they are qualified in the Institute provided, however, that whenever individual membership in the National Association of Real Estate Boards is available then such applicant must hold and maintain Individual Membership in the National Association of Real Estate Boards.

SECTION 6. Associate Members and Affiliates may attend the annual meetings of the Institute and have the privileges of the floor but they may not vote or hold office. They shall receive without extra cost a copy of each of the publications of the Institute.

SECTION 7. All individuals, when making application for membership, shall agree to uphold the constitution, by-laws, principles and ideals of the Institute, and shall further sign an irrevocable waiver of claim against the Institute, or any of its governors, officers, committee members, or other officials as individuals or as a group for any official act in connection with the business of the Institute, and particularly as to its or their acts in electing or failing to elect, advancing or disciplining him as a member.

SECTION 8. The examination as to qualification for membership will be prepared by the Governing Council of the Institute, or such committees as it may appoint. The examination of candidates may be delegated to the officers of the local Appraisal Chapter of the Institute, where such exists, or to the Appraisal or such other committee as the Board of Directors of the local real estate board may designate, where no local chapter of the Institute exists. The papers and records covering this examination will be forwarded to the Governing Council of the Institute for grading, final judgment, action on admission, and the decision of the Governing Council.

SECTION 9. All members shall be admitted to the Institute only by a vote of not less than 80% of the Governing Council present at a quorum meeting. The President may, at his discretion, order a ballot by mail, in which case 80% of the entire Governing Council must vote affirmatively to elect; but three negative ballots shall exclude. Candidates for membership shall be examined under such rules of procedure as the Governing Council may determine.

SECTION 10. Whenever a candidate seeks admission to the grade of Member or Associate Member in the Institute, the Secretary shall send a written notice of such application to all Members, including therein a digest of the candidate's qualifications and stating a time limit for reply which in no case shall be more than three weeks from date of mailing. It shall be the duty and obligation of each Member to reply to such notices and to give the committee notice thereby of any favorable or unfavorable facts known to the Member regarding the candidate. All replies from Members shall be referred to the proper examining committee and considered by them, but kept in strict confidence by the members of such committee. A negative request of twenty Members in good standing, when such requests are made for cause, shall exclude a candidate.

SECTION 11. The Institute shall exercise effective disciplinary power over its entire membership, including expulsion for cause. Such disciplinary power will be sufficiently self-restrained so that there will be no curbing of the individuality of the member, but will provide control so that the member who fails to conform to the decisions and principles of the majority, may not continue to benefit from a professional status granted him by the organization.

Disciplinary powers will be designed not to curtail ability and freedom of action, but to eliminate incompetency or lack of character or integ-

rity. These powers shall be such that the Institute may effectively force a member to maintain himself to the standards which he has reached and proven to others at the time of his admission to membership.

SECTION 12. The affirmative votes of at least 80 per cent of the membership of the Governing Council present at the time of balloting shall be required to discipline a member and a minimum vote of two-thirds of the entire Council shall be necessary for expulsion.

ARTICLE III

Certificates

SECTION 1. Each Member and Associate Member shall receive a certificate issued by the Governing Council of the Institute as evidence of the fact that he has satisfactorily met the admission requirements.

SECTION 2. The membership certificate as well as any badge or other evidence of membership issued at any time to a Member or Associate Member shall be the permanent property of the Institute and shall be returned promptly to the Secretary of the Institute when the membership of the individual to whom it is issued is for any reason terminated.

SECTION 3. The membership certificate of the individual whose ability, as recognized by the Institute, is limited to the appraisal of one special type of property, such as farms, ranches, or industrial property, etc., shall designate the particular specialization prominently and clearly following the name of the Member, thus: JOHN DOE of CHICAGO, ILLINOIS, APPRAISER OF FARM LANDS, or RICHARD ROE of CHICAGO, ILLINOIS, APPRAISER OF INDUSTRIAL PROPERTY.

ARTICLE IV

Nomenclature

SECTION 1. All Members of the Institute may identify themselves by the designation "M. A. I.," which shall be the abbreviation for the words "Member Appraisal Institute." Members may use these initials immediately following their signature as for example, John Doe, M. A. I., in signing letters, appraisal reports, or in articles and books for publication. Associate Members may for the same purpose and in the same fashion identify themselves by the designation "Associate M. A. I." which shall be the abbreviation for "Associate Member Appraisal Institute." Associate Members may use this designation immediately following their signatures, as for example, "John Doe, Associate M. A. I.," in signing letters, appraisal reports or in articles and books for publication.

SECTION 2. Neither the designation "M. A. I." nor the designation "Associate M. A. I." shall be used in any case following or immediately in connection with the name or signature of a firm or partnership.

SECTION 3. Members may use the expression "Member American Institute of Real Estate Appraisers of the National Association of Real Estate Boards" and Associate Members may use the expression "Associate Member American Institute of Real Estate Appraisers of the National Association of Real Estate Boards" on individual letterheads, business cards, appraisal reports, and in professional forms. In no case shall this expression be used in connection with a firm or partnership or in such manner that might be interpreted as referring to a partnership, a group, or to any one other than the individual rightly entitled to use the designation. Such use shall always be dignified and in a manner satisfactory to the Governing Council and in accordance with such rules as the Council may issue from time to time.

SECTION 4. The seal or emblem of the Institute shall be used only by the Institute itself or by an officially constituted Chapter, and not upon stationery, business cards, or otherwise by individual Members.

SECTION 5. Affiliates shall not be permitted professional identification with the Institute.

ARTICLE V

Dues

SECTION 1. Subsequent to their election members shall not be entitled to a certificate or any other benefits until the initiation fee, if any, and dues for at least twelve months have been received by the Institute. Failure to make such payment within ninety days of notice of election shall void the election to membership.

All dues become payable on January 1st of each year and in case of memberships accepted subsequent to that date dues for the second year will be adjusted on a quarterly proration.

SECTION 2. The Annual membership dues of Members shall be $20.00.

SECTION 3. The annual membership dues of Associate Members shall be $15.00 for those who also hold any membership in a local Member Board (and for whom said Board pays National dues) or a direct individual membership in the National Association; in all other cases the dues shall be $25.00 per year.

SECTION 4. The annual membership dues of Affiliates shall be $10.00.

SECTION 5. Each application for admission in the grade of Member or Associate Member shall be accompanied by a $5.00 examination fee, nonreturnable.

SECTION 6. Five dollars ($5.00) of the annual membership dues provided for in Sections 2, 3, and 4 of this Article is for annual subscription to *The Journal of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards.*

ARTICLE VI

Resignations, Suspensions, Expulsions, and Reinstatements

SECTION 1. All resignations of members shall be made to the Governing Council in writing and may be accepted by them on a majority vote subject to the payment of all outstanding dues and obligations of the resigning Member.

SECTION 2. Any member may be suspended or expelled for professional misconduct by a two-thirds vote of the Governing Council.

SECTION 3. Any member who shall be convicted of a crime which, in the opinion of the Governing Council, involves moral turpitude, shall, upon the passage by the Governing Council of a resolution declaring the crime for which he has been convicted to be of such character, be thereupon dropped from membership in this Institute.

SECTION 4. Any member who fails to pay his dues or other indebtedness to the Institute within 90 days after the same become due shall cease to receive "The Journal," official notices, or any other mailings of the Institute. He may at the end of such time be suspended by a majority vote of the Governing Council and shall then no longer be in good standing. Immediately upon suspension, all rights and benefits of membership shall terminate until the delinquency is cured. If any indebtedness to the Institute remains unpaid for 6 months after the same becomes due, his name shall be dropped from the rolls, unless the time of payment shall have been extended by the Governing Council. The President in his discretion may extend such period until, but not beyond, the next regular or special meeting of the Governing Council.

SECTION 5. The Governing Council may temporarily suspend the annual payment of dues by any member whose circumstances have become such as to make it impossible for him to pay the dues, and may, under similar circumstances, waive the whole or part of the dues in arrears. Such action shall be taken only on the written application of the member, signed by three other members in good standing or upon the submission of evidence satisfactory to the Governing Council that the action is for the best interests of the Institute.

SECTION 6. Any member dropped from membership for any reason other than one of a disciplinary character, shall be reinstated to good standing only by a majority vote at a meeting of the Governing Council. Any member dropped or expelled from membership as a result of the exercise of the disciplinary authority delegated to the Governing Council, or possessed by the Institute, shall be reinstated to good standing only by a three-fourths vote of the entire Governing Council. In all cases involving reinstatement, written application must be made by the candidate and approved by the Admissions Committee.

SECTION 7. Any Member or Associate Member who resigns, is suspended, or is dropped from the roll of membership, shall immediately return his Certificate, his Emblem, and any other marks of identity as a member of the American Institute of Real Estate Appraisers. Upon failure to return these evidences of membership upon demand by the Governing Council, the President or Governing Council may cause notice of such expulsion to be given publicity through paid advertising or news items in the papers local to the member's business address and also cause to be brought any legal action necessary to acquire these marks of identification which are the property of the Institute.

ARTICLE VII

Governing Council

SECTION 1. There shall be a Governing Council consisting of a minimum of sixteen and a maximum of twenty-eight members, one of whom shall be appointed by the Board of Directors of the National Association of Real Estate Boards, and the balance of whom shall be elected by the Institute from among its membership.

SECTION 2. One-third of the elective members of the Governing Council shall be elected at each annual meeting to serve for a term of three years (except that at the first annual meeting of the Institute five shall be elected to serve for a term of one year, five to serve for a term of two years, and five to serve for a term of three years).

SECTION 3. Each President of the Institute upon the expiration of his term of office, shall, for a term of five years, become an ex-officio member of the Governing Council with the privilege of voting. Such ex-officio members shall be in addition to the minimum and maximum number of members as set forth in Section 1, Article VII, of these By-Laws.

ARTICLE VIII

Nominating Committee

SECTION 1. The President, by and with the consent of the Governing Council, shall appoint a Nominating Committee, consisting of five members of the Institute.

SECTION 2. It shall be the duty of this Nominating Committee to nominate at least one person for each vacancy in the Governing Council of the Institute, which nominations shall be reported by mail to all members of the Institute at least three weeks prior to its annual meeting. Additional nominations may be made by a petition signed by at least five members in good standing provided such nominations shall be in the hands of the Secretary of the Institute at least five days prior to the annual meeting.

The report of the Nominating Committee and any additional nominations shall be read at the first session of the annual meeting for the information of the Members.

ARTICLE IX

Election of the Governing Council

SECTION 1. The annual election of one-third of the elective members of the Governing Council shall take place at the second session of the annual meeting of the Institute.

SECTION 2. The election shall be by ballot and every member in good standing present shall be entitled to one vote.

SECTION 3. The Chairman shall appoint three tellers who shall make a tabulation of the ballots and report to the meeting the result of the votes cast. The members receiving the highest number of votes for the Governing Council shall be declared elected and the tellers will so certify in writing to the Secretary of the Institute, giving the number of ballots cast for each nominee. Any tie vote shall be decided by a majority ballot of the members of the Governing Council, that is, the newly elected members and those continuing in office.

SECTION 4. The Governing Council by majority vote shall elect members to fill any vacancies occurring between annual meetings and each person so elected shall hold office until the vacancy is regularly filled at the next annual meeting.

ARTICLE X

Officers

SECTION 1. The Governing Council may elect from among its own number a President; and a Vice-President from each of nine (9) regions created by the Governing Council (subject to the right of the Governing Council to make changes therein at any time, such regions are hereby designated with boundaries and identification coincident with the regions already created by the Board of Directors of the National Association of Real Estate Boards). These officers shall also be respectively President and Vice-Presidents of the American Institute of Real Estate Appraisers; and their duties shall be such as usually pertain to their respective offices.

The Vice-Presidents shall, in the order of their nomination for the then current tenure of office, perform the duties of the President in the event of his absence or disability. They shall supervise the work of the Institute in their respective regions and act as the representative of the President in such matters as may be assigned to them.

In case of a vacancy in the office of any Vice-President is shall be filled by the Governing Council for the unexpired term from the region in which the vacancy occurs, and such Vice-President shall be regarded as the last nominee under the provisions of the second paragraph of this section.

SECTION 2. The chief executive officer of the Institute shall, by virtue of his office, become a member of the Board of Directors of the National Association of Real Estate Boards.

SECTION 3. The Secretary and the Treasurer of the National Association of Real Estate Boards shall be the Secretary and Treasurer respectively of the American Institute of Real Estate Appraisers. All funds of the Institute, including any special funds contributed to it by its members or others, shall be deposited in the treasury of the National Association of Real Estate Boards by the Treasurer and shall be segregated for the use of the Institute. The Treasurer shall make due accounting to the Governing Council of the Institute at least once each year.

ARTICLE XI

Fiscal and Elective Years

SECTION 1. The fiscal year and elective year of the American Institute of Real Estate Appraisers shall conform to those of the National Association of Real Estate Boards.

ARTICLE XII

Standing Committees

SECTION 1. The standing committees shall be as follows: Executive Committee, Admission Committee, Local Chapters Committee, Membership Committee, Legislative Committee, Publicity Committee, Appraisal Procedure Committee. Statistical Committee, Disciplinary Committee, Program Committee.

SECTION 2. Appointment and Duties.

A. Appointment. Each of the above committees shall consist of two or more Members of the Institute, except as otherwise herein provided. They shall be annually appointed by the President by and with the consent of the Governing Council.

B. Duties. The duties of these committees shall

be defined by the instructions they shall from time to time receive from the President of the Governing Council.

ARTICLE XIII

Special Committees

SECTION 1. Special committees may be appointed by the President, subject to the approval of the Governing Council, to perform such services as may be assigned to them.

ARTICLE XIV

Local Chapters

SECTION 1. For the purpose of affording its members better opportunities for close co-operation, discussion of various phases of real estate appraising, and local control, the Governing Council of the American Institute of Real Estate Appraisers may under such rules and regulations as it may adopt establish such local chapters as may be deemed advisable or necessary. These local chapters shall be known as "Chapters of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards" and shall each be given an identifying number in the order of their establishment.

SECTION 2. Upon the application of not less than fifteen Members in good standing, the Governing Council may grant authority for the establishment of local chapters with limits defined geographically by the Governing Council, such authority to continue at the pleasure of the Governing Council and to be revocable by the Council under such rules as to quorum and vote as are elsewhere set forth for the expulsion of a Member. Such local chapters shall always have not less than fifteen resident Members in order to maintain the continuity of their existence. The Governing Council may, however, at its discretion grant a special dispensation for permitting the formation of a chapter with a membership below the minimum number established in the By-Laws.

SECTION 3. These chapters shall have the right to elect a Chairman and other officers and committees and to assess dues necessary for their proper functioning. The actions of such local chapters shall at all times be subject to the approval of the Governing Council of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards and shall at all times remain subject to the Constitution and By-Laws of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards. Local chapters may not speak for the Institute without prior specific authorization from the Governing Council.

SECTION 4. It shall be the sole right of the Governing Council to divide or subdivide the territory included in the jurisdiction of any chapter if and when such action may be deemed advisable. In the establishment of new chapters made up from the territory of former chapters, there must be at least 15 members, provided, however, that the founding of the new chapter shall not reduce the membership of the original chapter below the minimum of 15 members.

Excepting for this said restriction, nothing within this section shall be interpreted to mean that any new chapter or chapters may not include one or more members who were formerly members of the chapter from whose territory the new chapter is created.

ARTICLE XV

Meetings and Quorums

SECTION 1. The annual meeting of the American Institute of Real Estate Appraisers shall be held at the same time and place as the annual meeting of the National Association of Real Estate Boards. Other meetings may be called by the Governing Council of the Institute from time to time.

SECTION 2. All meetings of the Institute shall be open to all members of the National Association of Real Estate Boards, provided, however, that only members duly enrolled in the Institute shall be entitled to the privileges of the floor, to participate in the discussions, and only Members may vote or hold office.

SECTION 3. Those Members present after due notice of not less than two weeks prior thereto shall constitute a quorum for any annual meeting.

SECTION 4. A quorum for any special meeting shall consist of 60 per cent of the Members in good standing when present either in person or by proxy. All Members are to be notified by mail sent out at least two weeks prior to the date of any special meeting of any decisions to be made at the meeting. Any decisions made at a special meeting without such prior notice shall not be final until confirmed at the next annual meeting or at a subsequent special meeting following due notice of the action to be considered.

SECTION 5. A quorum for any meeting of the Governing Council shall consist of seven (7) members present in person.

ARTICLE XVI

Limitation of Liability

SECTION 1. The National Association of Real Estate Boards shall not assume any liability for expenditures or commitments of the American In-

stitute of Real Estate Appraisers unless such expenditures or commitments shall first have been approved by the Board of Directors of the National Association of Real Estate Boards.

ARTICLE XVII

Territorial Appraisal Limitations

SECTION 1. Appraisals made by a Member or an Associate Member of this Institute outside of his own Board city or metropolitan area for the purpose of selling a bond issue to the general public shall be made in conjunction with a fellow Member in the Board, city, or metropolitan area where the property to be appraised is situated; provided, however, that there is such an Institute Member in such city or metropolitan area.

ARTICLE XVIII

Amendments

SECTION 1. These By-Laws may be amended by the Governing Council of the American Institute of Real Estate Appraisers by a two-thirds vote of the Members present, provided thirty days' notice in advance shall have been given to all Members of the intention to amend, together with a written copy of the proposed amendments, and provided further that such amendments be approved by the Board of Directors of the National Association of Real Estate Boards before they become effective.

New Members

Admitted to Member Grade

AUBREY MADDOCK, HARTFORD, CONNECTICUT. Past President Hartford Real Estate Board; Past President, Connecticut Association of Real Estate Boards; Past Chairman, States Council of the National Association of Real Estate Boards; actively engaged in real estate and appraisal work in Hartford, Connecticut for more than ten years; manages more than 100 properties, including office buildings, apartments. mercantile buildings, lofts, and tenements; an "approved" appraiser for the Trust Department of the First National Bank of Hartford and for the Prudential Life Insurance Company; qualified in court as an expert on the value of various types of real estate and numerous foreclosure and condemnation cases.

JOHN M. HUTCHINSON, WATERBURY, CONNECTICUT. Born in Waterbury, Connecticut, February, 1888; President, Hutchinson and Hutchinson; Member and Past President, Waterbury Real Estate Board; President, Connecticut Association Real Estate Boards; professional territory covers the State of Connecticut; thirty years experience in the appraising of real property, including the valuation of dwellings, stores, apartments, acreage, offices, and industrial property; qualified in court as an expert on the value of all types of real estate for the last twenty-seven years; has appraised for the Prudential Life Insurance Company, Moodus Savings Bank, Moodus, Connecticut, the Waterbury Title Company, the Waterbury Trust Company both of Waterbury, Connecticut, and the Union and New Haven Trust Co., New Haven Connecticut; extensive experience in the construction of residences, apartment buildings and commercial buildings; 30 years' experience in residential sales.

J. ALTON LAUREN, CHICAGO, ILLINOIS. Born in Chicago, Illinois in August 1897; Principal Land Appraiser for Public Works Administration (Federal Government) in Cook County; Deputy Assessor, Cook County; President, J. Alton Lauren & Co. (doing a general real estate business); Active Member, Chicago Real Estate Board; professional territory covers Northern Illinois; collaborated in the preparation of Cook County Assessors' Manual on Personal Property, and the preparation of the Assessors' Final Report to the Governor of the State; 3 years in the University of Chicago; Salesman with Newton B. Lauren & Co., 1921 to 1926; operated his own business as a broker from 1926 until the present time; conducted classes in taxation and office procedure in the county assessor's office; Instructor in Geology at the University of Chicago; 14 years' experience in the appraising of real estate; licensed real estate broker from 1926 to date; qualified in Court as an Expert on residential property values in 1928; experienced as a general contractor in the building of residences; 14 years' residential sales experience; appraisal experience includes valuation of acreage, residences, apartment properties, farms, industrial properties, and commercial properties; as Deputy Assessor of Cook County has appraised individually more than half of the county town area in Cook County, including every parcel of land in these areas, and also a considerable part of the City of Chicago.

ORLO O. MONTAGUE, CHICAGO, ILLINOIS. Admitted as a specialist in the appraisal of industrial property. Born in Davenport, Iowa, September, 1885; surviving partner of Chandler and Montague; active member Chicago Real Estate Board; professional territory covers Metropolitan Chicago; entered real estate business with his father, A. J. Montague, in 1902; was member of the firm, A. J. Montague & Son, from 1907 to 1923; formed partnership of Chandler and Montague in 1923; has always dealt and operated almost exclusively in industrial properties; served on Chicago Real Estate Board Valuation Committee in 1924, 1927, 1928, 1933, and 1935; assisted the appraisal committee of the Chicago Real Estate Board, making industrial appraisals at various times in 1926, 1929, 1932, and 1934; 29 years' experience in real estate business; active in appraisal work for more than 10 years; qualified in court as an expert on the value of industrial properties; has had extensive experience in the erection of industrial buildings.

JOHN W. ROBERTS, INDIANAPOLIS, INDIANA. Born in Indianapolis, Indiana, August, 1881; associated with W. A. Brennan, Inc., in charge of sales and appraisals; Active Member, Indianapolis Real Estate Board; one of the organizers of the Indianapolis Real Estate Board and acted as Secretary for several years; was an active Officer in the City Builders Realty Company which did considerable subdivision and building in Palm Beach and Miami Beach, Florida, previous to 1925; 25 years' appraisal experience, including the valuation of stores, apartments, store rooms, theaters, office buildings, bank buildings, vacant and special purpose properties; qualified in court as an expert on the real estate values of industrial and investment properties; has appraised for Federal Union Life Insurance Co., Union Central Life Insurance Co., Indiana Trust Co., Fletcher Trust Co., Fletcher American National Bank; 25 years of experience in residential sales.

ARTHUR B. BROOKS, BOSTON, MASSACHUSETTS. Born in Dedham, Massachusetts, May,

1886; Director, Meredith & Grew, Inc.; Partner, Meredith, Grew & Whitmere; Active Member Boston Real Estate Exchange; professional territory covers Boston and vicinity; A. B. degree from Harvard; 25 years' experience in the appraising of real property, including residential and mercantile properties; qualified in court as an expert on real estate values of business and residential properties.

EDWIN DEERING BROOKS, BOSTON, MASSACHUSETTS. Born in Dedham, Massachusetts, November, 1877; Trustee, manager of real estate trusts and estates; Vice-President, Minot, Williams, and Banks, Inc.; Trustee and Member, Investment Board of the Franklin Savings Bank; active member Boston Real Estate Exchange; professional territory covers Boston and various cities in Middle West and South; A. B. degree from Harvard; 30 years' experience in the appraising of real property; qualified in court as an expert on the value of business property.

GEORGE L. DE BLOIS, BOSTON. MASSACHUSETTS. Born in Newton, Massachusetts, August, 1867; Trustee of real estate and personal property; partner in firm of Geo. L. DeBlois and A. N. Maddison; Vice President, Provident Trust for Savings; Director, New England Trust Company; active member of the Boston Real Estate Exchange; professional territory covers Metropolitan Boston; Harvard College A. B. degree 1889; 40 years' experience in the appraising of real property; qualified in court as an expert on the value of business property; has appraised for the Connecticut General Life Insurance Company and other financial institutions.

ARTHUR N. MADDISON, BOSTON, MASSACHUSETTS. Born in Woburn, Massachusetts, June, 1876; Trustee and Manager of real estate and personal property, also insurance agent; a partner of Geo. L. DeBlois; professional territory covers City of Boston; Vice-President, Lexington Co-Op. Bank; member Investment Board, Home Savings Bank; Director, Fiduciary Trust Company and National Shawmut Bank, Boston; Director and Trustee of various real estate corporations and trusts; active member of the Boston Real Estate Exchange.

GEORGE S. PARKER, BOSTON, MASSACHUSETTS. Born in Washington, D. C., May, 1868; active member Boston Real Estate Exchange; real estate, insurance, and trustee; Vice-President and Member of Investment Committee, Boston Penny Savings Bank; professional territory covers the business district of Boston and residences in town of Brookline, Massachusetts; professional territory on behalf of the Boston Penny Savings Bank covers the metropolitan district of Boston; trustee of six estates; appraisal experience covers a period of more than 10 years; active in the real estate business since 1891.

STEPHEN W. SLEEPER, BOSTON, MASSACHUSETTS. Born in Boston, Massachusetts, 1874; Member firm, Sleeper & Dunlop; Trustee, Provident Institution for Savings; Director and Trust Committee, New England Trust Company; Vice-President, Massachusetts Hospital Life Insurance Co.; served as director of the National Association of Real Estate Boards for many years; served three years on the Executive Committee of the National Association of Real Estate Boards; professional territory covers Metropolitan Boston; member, Boston Real Estate Exchange.

ROBERT S. WAYLAND, BOSTON, MASSACHUSETTS. Born in Brooklyn, New York, August, 1878; Vice-President Whitcomb & Company, Inc., real estate brokers and agents; Director, Boston Real Estate Exchange and Chairman of its Appraisal Committee; Vice-President, Massachusetts Association of Real Estate Boards; Vice-Chairman, Brokers Division National Association of Real Estate Boards; Vice-President, Riverside Boiler Works, Inc., Cambridge, Massachusetts; professional territory covers New England; 20 years' experience in real estate appraising.

CHARLES A. KABLEY, WORCESTER, MASSACHUSETTS. Born in Worcester, Massachusetts in 1865; active member Worcester Real Estate Board; professional territory covers central Massachusetts; 40 years' experience in the appraising of real estate; qualified in court as an expert on the value of all types of property; has appraised for the State Mutual and the Worcester Mutual Life Insurance Companies, the Worcester County Trust Company, and various other financial institutions; has built 30 or 40 houses.

CURT C. MACK, ST. LOUIS, MISSOURI. Born in St. Louis, Missouri in October, 1897; Real Estate Officer—Laclede Bond and Mortgage Co.; Fee Appraiser, Home Owners' Loan Corporation; Fee Valuator—Federal Housing Administration; Appraisal Consultant, Reconstruction Finance Corporation; Vice-Chairman, Board of Governors, Brokers Division, St. Louis Real Estate Exchange; Officer of Member Corporation holding membership in St. Louis Real Estate Exchange; professional territory covers City and County of St. Louis and environs; St. Louis University (Commerce & Finance) 1919-1921 inclusive; completed courses in real estate appraising offered by the Institute at the University of Chicago in August, 1935; 9 years' experience in the appraising of real property, including the valuation of dwellings, apartments, industrial properties, commercial properties, office buildings, filling stations; qualified in court as an expert on the value of residential and income property from 1931 to 1935; experienced as a general contractor in residential

construction; 14 years' experience in residential sales.

JOSEPH RUSSELL LAMBERT, PATERSON, NEW JERSEY. Born in Paterson, New Jersey, in December, 1895; Vice-President and Treasurer, Wm. R. & Jos. R. Lambert, Inc. Secretary-Treasurer Hawthorne (N. J.) Insurance Ass'n; Acting Agent, Broadbank Corporation of Newark, N. J.; Member, Passaic County Real Estate Board; professional territory covers northern New Jersey, including Passaic and Bergen Counties in particular; sixteen years' experience in the appraisal of real property including the valuation of apartments, homes, garages, office buildings, banks, stores, vacant land, pipe line rights of way, railway and railroad rights of way; licensed real estate salesman; qualified in court as an expert on various kinds of real estate valuations; has appraised properties for Savings, Title & Trust Companies and for Building & Loan Associations; sold over one hundred homes and has placed mortgages on over fifty homes.

WILLIAM G. McDOWELL, PLAINFIELD, NEW JERSEY. Born in Stapleton, S. I., New York in August, 1887; in business under own name, handling general real estate brokerage and property management; President and Treasurer of the State Insuring Agency, Inc.; Secretary, Industrial Location Commission; Treasurer and Chairman of Pedestrian Traffic Committee, Plainfield Area Safety Council; Chairman, Research Advisory and City Planning Commission of the City of Plainfield; Past President of the Plainfield Real Estate Board; Past District Governor New Jersey Association of Real Estate Boards; Past Chairman of Executive Committee, Plainfield Association of Insurance Agents; professional territory covers Plainfield and vicinity, all sections of Union County and different parts of the State of New Jersey; over fifteen years' experience in the appraising of real property, including the valuation of industrial, church, business, vacant, residential, etc., properties; qualified in court as an expert in dwellings, business property, churches; has appraised for The State Trust Company, the Newark Mutual Benefit Building & Loan Association, etc.; fifteen years in residential sales.

EDWARD McDERMOTT, UNION CITY, NEW JERSEY. Born in Union City, N. J. in 1866; Member, Edward McDermott Company; Member, McDermott & Binda, Architects; Member, Board of Directors, 1st National Bank of North Bergen, Hudson County, N. J.; Member, North Hudson Real Estate Board, Hudson County, N. J.; professional territory covers Northern New Jersey; Author and Teacher; Assessor of the Town of West Hoboken from 1892 to 1929 inclusive; since 1909 specialized in tax and assessment work; in 1925 became Commissioner of Finance of the newly consolidated City of Union City and continued in that capacity until January 1, 1927; in 1930 was appointed President of the Board of Assessors which office was held until 1932; established own business in 1893 and has been active in real estate work since that date; Fee Appraiser for H.O.L.C. since November 1, 1933; since 1924 has served as Hudson County Appraiser for the Prudential Insurance Company.

JOSEPH WILLIAM CATHARINE, BROOKLYN, NEW YORK. Born in Jersey City, New Jersey, August, 1886; President and Director of the Chauncey Real Estate Co., Ltd.; Vice President and Trustee of Kings County Savings Bank; Director, Home Title Insurance Company, Home Title Guaranty Company; Director, The Brooklyn Real state Exchange, Ltd.; professional territory covers Kings County, Brooklyn, New York; Appraiser for Bowery Savings Bank for Brooklyn; one of the appraisers for the Surrogate of Kings County and for the Mortgage Commission, State of New York; also for Insurance Department, State of New York; 30 years' association with the late Thomas Hovenden, one of Brooklyn's foremost real estate appraisers; 25 years' experience in the appraising of real estate property, including the value of all types of real estate typically found in metropolitan areas; qualified in court as an expert on all types of property; 30 years' experience in residential sales.

HOWARD GEOGHEGAN, NEW YORK CITY. Born in New York City in 1898; real estate appraiser for the Emigrant Industrial Savings Bank; professional territory covers Manhattan, Bronx, and Westchester; Fordham University, New York City; over 8 years' experience in the appraisal of real property, principally for the Emigrant Industrial Savings Bank in connection with property acquired by foreclosure, new mortgage loans, extensions of mortgage maturities, etc. and for the law firms of R. & E. J. O'Gorman, McGuire & McGuire, Smith & Purdue, Thos. M. Roche, and for the St. Vincent De Paul Society; over 10 years' sales experience.

JOHN J. McCORMICK, NEW YORK CITY. Born in New York City in October, 1902; appraiser, Emigrant Industrial Savings Bank; professional territory covers Greater New York City; over 15 years' experience in appraising of real property in connection with real estate owned by Emigrant Industrial Savings Bank, new mortgages, extensions, additional loans, etc.; qualified in court as an expert on the value of residential property, 1933; construction experience in rehabilitation of bank properties; sales experience in sale of bank properties.

NORMAN M. PLUMMER, PORTLAND, OREGON. Born in Cedar Rapids, Iowa, May, 1895; Supervisor of Preliminary Appraisers, Home Own-

ers' Loan Corporation, Portland, Oregon; full time salaried employee of the Government; professional territory covers the entire State of Oregon; twelve years' experience in the appraising of real property, including the values of apartments, store buildings, and residential properties; formerly licensed broker in the State of Oregon for the years 1928 to 1931; has appraised for MacMaster Ireland Life Insurance Co. and John Hancock Life Ins. Co., The Security Trust and Savings; construction experience includes new constructions, repairs and alterations, involving 200 new houses and 400 remodeling jobs in Portland; ten years' experience in residential sales.

J. S. EDWARDS, BEAUMONT, TEXAS. Born in Ennis, Texas, in 1877; Class A member, Beaumont Real Estate Board; professional territory covers Jefferson County; twenty-nine years' experience in real estate appraisals, including the valuation of railroad properties, industrial properties, vacant lots, residential properties, churches, business properties, hotels, etc.; qualified in County and Federal Courts as an expert on all kinds of property values; has appraised property for the San Jacinto Life Ins. Co., for building and loan associations, and for banks and trust companies; twenty-nine years' experience in residential sales.

ADMITTED TO ASSOCIATE MEMBER GRADE

Article II, Section 3, Sub-Section C.—General

W. CARROLL WILSON, MIAMI, FLA. Born in Portland, Oregon; Active Member, Miami Realty Board; Member; Appraisal Committee; District Appraiser, Home Owners' Loan Corporation; Appraiser and Property Manager of the Stembler-Adams-Frazier Ins. Agency; Appraiser, Florida National Bank & Trust Co.; connected with Rodney Miller, Inc., General Building Contractor; 8 years' experience in the appraising of real estate.

JAMES ROSENSOHN, ELIZABETH, NEW JERSEY. Born in Passaic, New Jersey, in December, 1900; President and Treasurer of James Rosensohn, Inc.; professional territory covers State of New Jersey; independent fee appraiser for H.O.L.C.; Broker Member of Elizabeth Real Estate Board; nine years' experience in the appraising of real estate including the valuation of stores, theatres, lofts, office buildings, apartments, etc.; during 1926 to 1929 was engaged in estimating building costs for the Rolo Company, Inc., general contractors of Newark; architectural training in office of Hyman Rosensohn, Architect; studied architecture at Columbia University; engaged in real estate activities since 1922; received technical real estate appraising training at Rutgers University Extension Division.

American Institute of Real Estate Appraisers

MAURICE F. REIDY..................President
2 Foster St., Worcester, Mass.
E. L. OSTENDORF...............Vice-President
610 Nat'l City Bank Bldg., Cleveland, Ohio
GEORGE L. SCHMUTZ............Vice-President
8703 Santa Monica Blvd., Los Angeles, Calif.
K. LEE HYDER..................Vice-President
525 E. Michigan Ave., Milwaukee, Wis.
J. ALVIN REGISTER.............Vice-President
114 Graham Bldg., Jacksonville, Fla.
RALPH D. BAKER...............Vice-President
924 Broadway, Camden, N. J.
WM. H. BALLARD...............Vice-President
45 Milk St., Boston, Mass.
R. W. PATTON...................Vice-President
614 Travis Bldg., San Antonio, Texas
WM. A. EASTMAN................Vice-President
414 University St., Seattle, Wash.
HERBERT U. NELSON................Secretary
22 W. Monroe St., Chicago, Ill.
MARK LEVY ....Treasurer
7 S. Dearborn St., Chicago, Ill.
HARRY GRANT ATKINSON................
.......................Director of Activities
22 W. Monroe St., Chicago, Ill.

Governing Council

Term Expiring December 31, 1938

Maurice F. Reidy, Worcester, Mass.
J. Alvin Register, Jacksonville, Fla.
George L. Schmutz, Los Angeles, Calif.
Ralph V. Field, Galesburg, Ill.
Newton C. Farr, Chicago, Ill.
George W. Drennan, Detroit, Mich.
Henry S. Miller, Dallas, Texas.
Maurice R. Massey, Philadelphia, Pa.
Frank McCurdy, Brooklyn, N. Y.

Term Expiring December 31, 1937

A. C. Houghton, Washington, D. C.
W. H. Ballard, Boston, Mass.
Hill Ferguson, Birmingham, Ala.
Arthur S. Kirk, Des Moines, Iowa.
Ralph D. Baker, Camden, N. J.
R. W. Patton, San Antonio, Texas.
W. A. Eastman, Seattle, Wash.
Edward Eagan, Syracuse, N. Y.
James J. Grogan, Cincinnati, Ohio.

Term Expiring December 31, 1936

K. Lee Hyder, Milwaukee, Wisc.
Norman L. Newhall, Minneapolis, Minn.
E. L. Ostendorf, Cleveland, Ohio.
Fenwick B. Small, Brooklyn, N. Y.
Frank H. Taylor, East Orange, N. J.
Charles F. Curry, Kansas City, Mo.
Charles J. Daly, St. Louis, Mo.
D. Earl Wilson, Miami, Fla.

Ex-Officio Members

Mark Levy, Chicago, Ill.
Philip W. Kniskern, Philadelphia, Pa.
Joseph B. Hall, St. Louis, Mo.
Harry E. Gilbert, Baltimore, Md.

Officers of Local Chapters

New Jersey Chapter Number 1

President—Edward J. Maier, Newark
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Secretary—John L. Wright, Lakeland
Treasurer—John B. Green, St. Petersburg

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Vice-President—T. F. Merrick, Heartwell Bldg., Long Beach
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Vice-President—Frank P. Felton, Jr., Philadelphia
Vice-President—Robert J. Nash, Philadelphia
Secretary—S. Craig Kane, Jr., Philadelphia
Treasurer—C. Harry Johnson, Philadelphia

Michigan Chapter Number 10

President—Paul A. Kern, Pontiac
Vice-President—Charles H. Warden, Grand Rapids
Secretary-Treasurer—Henry N. Johnson, Detroit

Committees

Standing Committees

(See pages 225 to 229, Roster of Members, for addresses.)

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Walter S. Palmer, Grand Rapids, Mich.
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William F. MacDermott, Jamaica, Long Island, N. Y.
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J. W. Cree, Jr., Pittsburgh, Pa.
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John C. Kiley, Boston, Mass.
Henry N. Johnson, Detroit, Mich.
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James Devine, Providence, R. I.
W. H. Prince, Johnson City, Tenn.
R. W. Patton, San Antonio, Texas.
Morton G. Thalhimer, Richmond, Va.
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Cyril R. DeMara, Toronto, Ontario, Canada.

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A. L. Layden, Los Angeles, Cal.
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John B. Green, St. Petersburg, Fla.
B. M. Grant, Atlanta, Ga.
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John C. Percival, Lowell, Mass.
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John G. Emery, Grand Rapids, Mich.
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J. F. Sutherland, Minneapolis, Minn.
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L. C. Sholes, Omaha, Nebr.
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S. T. Henderson, Charlotte, N. C.
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Henry Bush, Madison, Wisc.

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E. L. Ostendorf, Cleveland, Ohio.
Arthur C. Houghton, Washington, D. C.

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John A. Linnett, Newark, N. J.

ROSTER OF MEMBERS

(Figures in parenthesis following names indicate the Certificate Number issued to each Member, and the order of election.)

ALABAMA

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John D. Chichester (228)......708 Jackson Bldg.
Frank B. Clark (261)..............220 N. 21st St.
Hill Ferguson (242)................221 N. 21st St.
Harold M. Henderson (215).........2115 1st Ave.

CALIFORNIA

Glendale
Peter Hanson (11)................221 Arden Ave.

Long Beach
J. Mortimer Clark (50).........262 Lindero Ave.
J. C. Hoffman (71).......307 F. & M. Bank Bldg.
A. G. Maspero (51)...........409 Security Bldg.
T. F. Merrick (27)...............Heartwell Bldg.

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Raymond F. Ahern (424)....1939 N. Hobart Blvd.
Ralph Brashear (36)..............4157 W. 57th St.
David W. Bush (197).....616 O. T. Johnson Bldg.
Cloice D. Carll (410)...........5376 Vincent Ave.
George H. Coffin, Jr. (216)...................
...................408 Hollywood Security Bldg.
Ayers J. duBois (107)......7079 Hollywood Blvd.
W. G. Harris (430).................215 W. 6th St.
Arthur L. Layden (104)......417 S. Norton Ave.
Nathan H. Libott (84).....6253 Hollywood Blvd.
Stanley L. McMichael (25)..6785 Whitley Terrace
Thurston H. Ross (427)......3465 Knollcrest Ave.
John W. Salmon (208)........2912 Brighton Ave.
D. D. Sayer, Jr. (278)................4100 E. 9th St.
George L. Schmutz (192)..8703 Santa Monica Blvd.
Charles B. Shattuck (110)..2510 S. Vermont Ave.
Ivan A. Thorson (199).....500 Corporation Bldg.
Fred E. Vincent (212).......3440 Winslow Drive
Richard C. Willis (321).........2221 W. 21st St.

Oakland
W. S. Guilford (46) Athens Athletic Club.....
..................................12th & Clay Sts.
James G. Stafford (54)........5820 Presley Way

Orange
David L. Montonna (416)....109 E. Chapman Ave.

Pasadena
Louis M. Pratt (411)..........164 N. Hudson Ave.

Sacramento
Mark Cheesman (189)..........2964 Govan Way
A. J. Delano (126).........................809 J St.
Thomas G. Mapel (367)...................809 J St.

San Francisco
George I. Noyes (295)..........444 California St.

Southgate
Louis R. Ardouin (205).......2931 Willow Place

South Pasadena
Frank C. Wood, Jr. (326)......1601 Ramona Ave.

Wilmington
Thomas Francis Mason (151)............Box 122

CONNECTICUT

Hamden
Henry Musch, Jr. (157)..........42 Thornton St.

Hartford
Joseph P. Kennedy (24)..............720 Main St.
Aubrey Maddock (507)................50 State St.

New Haven
Wm. M. Hotchkiss (436)...........205 Church St.
Charles T. Lincoln (265)..........205 Church St.

Stamford
Richard W. Fitch (231)..............292 Main St.

Waterbury
George B. Horan (275).......115 Randolph Ave.
John M. Hutchinson (500).....195 North Main St.

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Washington
Harold E. Doyle (82)...........738 15th St., N. W.
Joseph A. Herbert, Jr. (69).....515 E. Capitol St.
A. C. Houghton (72)...........909 15th St., N. W.
Morton J. Luchs (178)...........1505 H St., N. W.
F. Eliot Middleton (280)........Investment Bldg.
R. Marbury Stamp (258).........1421 H St., N. W.
Charles H. Tompkins (337)..1630 Connecticut Ave.
Curtis Walker (196).................Tower Bldg.

Members in Government Service:

Frederick M. Babcock (435)..Fedl. Housing Adm.
Wm. D. Burkheimer (309)....................
.............(FHA) 3726 Connecticut Ave., N. W.
Warren S. Dean (313).........(HOLC) 1619 R St.
Leonard Downie (296)...............HOLC Bldg.
Ayers J. duBois (107).....Federal Housing Adm.
J. W. Graham (83).....(FHA) Vermont and K St.
Cuthbert E. Reeves (19)..........511 HOLC Bldg.
Geo. P. Williams (387)...........410 HOLC Bldg.
Carroll Wright (314)..............410 HOLC Bldg.

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Harry J. Wood (187)..................1112 1st St.

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V. M. Covington (48).........1316 Graham Bldg.
Louis R. Fendig (44).....2nd Fl. Buckman Bldg.
Myron L. Howard (73)....516 Professional Bldg.
J. Alvin Register (4)..........114 Graham Bldg.
Bainbridge Richardson (59)..117 W. Forsyth St.
Walter D. Shelly (217)......414 Greenleaf Bldg.
L. K. Tucker, Jr. (150).......319 W. Forsyth St.

Lakeland
John L. Wright (243)..........117 S. Tenn. Ave.

Miami
Hollis Bush (98)..................P. O. Box 1030
Kenneth S. Keyes (115)........13 W. Flagler St.
Adrian McCune (74).........1017 Security Bldg.
D. Earl Wilson (80).........1017 Security Bldg.

Orlando
George F. Brass (160).............P. O. Box 1052
Harold V. Condict (161)..................Box 1052
C. W. Rex (42)..............................Box 293
J. C. Stewart (166)..........112 N. Orange Ave.

Sarasota
Fred L. Palmer (127)..................482 Main St.

St. Petersburg
John B. Green (308)................11 4th St., N.
Warren P. Hunnicutt (338)......302 Central Ave.

Tampa
Charles P. Glover (139)......................
.......................811 Citrus Exchange Bldg.

Vero Beach
Frank R. Jewett (143)...............P. O. Box Q

West Palm Beach
Frank J. Anderson (223)........611 Harvey Bldg.

GEORGIA

Atlanta
Bryan M. Grant (147)............206 Grant Bldg.
Robert R. Otis (256).............15 Auburn Ave.

HONOLULU, T. H.

Charles J. Pietsch (417).............927 Fort St.

ILLINOIS

Chicago
Graham Aldis (365)..........53 W. Jackson Blvd.
Louis B. Beardslee (405)........100 N. LaSalle St.
Kenneth Calhoun Brown (210).110 S. Dearborn St.
Harry S. Cutmore (194)..838 1st Natl. Bk. Bldg.
Dominick Dunn (370).............1330 Morse Ave.
Newton C. Farr (400).......140 S. Dearborn St.
Harry Goldstine (350)..........134 N. LaSalle St.
Earl George Gubbins (383).....6015 Lincoln Ave.
Arthur B. Hall (403).........407 S. Dearborn St.
John P. Hooker (52)............140 S. Dearborn St.
A. K. Hornof (173)......1411 1st Natl. Bk. Bldg.
Ward T. Huston (209).......110 S. Dearborn St.
Isaac Keim (324)............2526 S. Wabash Ave.
Arthur Kruggel (341)..............4865 Broadway
Walter R. Kuehnle (124).....140 S .Dearborn St.
J. Alton Lauren (442).......5549 Woodlawn Ave.
Mark Levy (9)......................7 S. Dearborn St.
Paul C. Loeber (399).....111 W. Washington St.

Ernest H. Lyons (195)..........120 S. LaSalle St.
William C. McLennan (414)..6675 Northwest Hgy.
Francis E. Manierre (402).......5 S. Wabash Ave.
Orlo O. Montague (514)....1374 First Natl. Bldg.
Donald T. Morrison (382)..100 North LaSalle St.
William E. Mosby (297).8032 Cottage Grove Ave.
Hyde W. Perce (406)..........40 N. Dearborn St.
Lester W. Porter (407)..........231 S. LaSalle St.
Geo. R. Quin (191)..................36 S. State St.
Gilbert H. Scribner (401)......1st Natl. Bk. Bldg.
Henry George Slavik (301)......10 S. LaSalle St.
Paul Steinbrecher (409).........7 S. Dearborn St.
John Milton Trainer (404)...30 N. Michigan Ave.
Percy E. Wagner (318) F. H. A., 134 N. LaSalle St.
Herman O. Walther (363)....111 S. Dearborn St.
J. Soule Warterfield (120).......8 S. Dearborn St.
Albert H. Wetten (408)....141 W. Jackson Blvd.

Galesburg
Ralph V. Field (168)...203 Bk. of Galesburg Bldg.

Joliet
William W. Mollan (288).........405 D'Arcy Bldg.

Peoria
James H. Finnegan (428)...415 Peoria Life Bldg.

Waukegan
Leo Dailey (388)..............218 Washington St.
Oscar Soderquist (125).............22 Maple Ave.

INDIANA

East Chicago
Leonard C. Smith (440)...4534 Indianapolis Blvd.

Fort Wayne
Claude L. Baker (129).....................R. R. 9

Gary
Charles D. Davidson (244)..........504 Broadway
J. R. Davidson (123)...............504 Broadway

Hammond
George N. Becker (245).........7407 Jackson Ave.
Samuel C. Ennis (203)............1st Trust Bldg.

Indianapolis
George A. Kuhn (35)..........706 Guaranty Bldg.
John W. Roberts (448)..........428 Illinois Bldg.

IOWA

Cedar Rapids
John J. Wagner (266)..408 American Trust Bldg.

Des Moines
Arthur S. Kirk (188)..............900 Grand Ave.

Sioux City
Willard L. Frost (21).......Security Bank Bldg.

KANSAS

Hutchinson
J. C. McNaghten (116).........1st Natl. Bk. Bldg.

Topeka
David Neiswanger (426)...........115 W. 6th Ave.

KENTUCKY

Louisville
I. Sidney Jenkins (334)....Louisville Trust Bldg.
Paul F. Semonin, Sr. (359)......321 Starks Bldg.

LOUISIANA

Shreveport
T. S. Neal (224).........330 Ricou-Brewster Bldg.
R. S. Whitten (351).................210 Milam St.

MARYLAND

Baltimore
Oregon Milton Dennis (132)....................
W. E. Ferguson (47)...........100 E. Pleasant St.
Harry E. Gilbert (18)..........2 E. Lexington St.
Albert C. Hofrichter (162)....2 E. Lexington St.
Chas. H. Steffey (88)...........336 N. Charles St.

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Boston
W. H. Ballard (41).....................45 Milk St.
Arthur B. Brooks (509).............40 Central St.
Edwin Deering Brooks (510).......18 Tremont St.
Edward F. Cassell (122)...........18 Tremont St.
George L. DeBlois (505).....11 Pemberton Square
James D. Henderson (169)....209 Washington St.
Norman W. Kenny (10).........82 Devonshire St.
John C. Kiley (397)................45 Bromfield St.
Arthur N. Maddison (504)...11 Pemberton Square
Robert C. Nordblom (336)...........18 Oliver St.
George S. Parker (502)....................87 Milk St.
Stephen W. Sleeper (508)..................31 Milk St.
Robert S. Wayland (506)..............10 State St.

Brocton
Charles H. McKenney, Jr. (423).......106 Main St.

Fall River
J. Frederick Beckett (167).......49 Purchase St.
Myer Markell (165)..................Granite Block
Everett N. Slade (53)..............57 N. Main St.

Lowell
John C. Percival (233)................36 John St.

Springfield
Henry M. Clark (287)..............100 Broadway
Bion T. Wheeler (339)..............1562 Main St.

Worcester
Charles A. Kabley (501)..............340 Main St.
Maurice F. Reidy (8)..................2 Foster St.

MICHIGAN

Detroit
Judson Bradway (392).........533 Majestic Bldg.
Matthew Carey (389)..2149 Union Guardian Bldg.
George W. Drennan (358)....300 Penobscot Bldg.
Guy S. Greene (394)...........300 Lafayette Bldg.
Henry N. Johnson (390)....300 Penobscot Bldg.
Alfred W. Palmer (312).1920 Union Guardian Bldg.
Edmund T. Paterson (385)..3050 E. Grand Blvd.
Leonard P. Reaume (393).........2150 Buhl Bldg.
George C. Sexauer (395)..........2150 Buhl Bldg.
William W. Tanney (434).First Natl. Bank Bldg.
Clarence S. Vaughn (422).......................
....................2103 First National Bank Bldg.
Carl S. Wells (391)............2706 Eaton Tower

Grand Rapids
J. G. Lloyd Alexander (246)....616 Murray Bldg.
Isaac Blandford (234)..100 Federal Square Bldg.
Leon T. Closterhouse (247)....................
...............American Home Security Bank
John Garfield Emery (304)....................
.........................205 Federal Square Bldg.
Harry J. Fuller (235)....The Michigan Trust Co.
Walter S. Palmer (193).104 Federal Square Bldg.
Arent Van Stensel (248).......................
...................1006 G. R. Savings Bank Bldg.
Charles H. Warden (229).......................
........................535 Michigan Trust Bldg.

Lansing
Edward G. Hacker (291)......228 S. Capitol Ave.

Pontiac
Paul A. Kern (134).............1st Natl. Bk. Bldg.

MINNESOTA

Duluth
Richard W. Northup (379)......17 Phoenix Bldg.

Minneapolis
Fred L. Chapman (441)..............115 S. 5th St.
Norman L. Newhall (32).......519 Marquette Ave.
Edwin L. Somerville (30).....615 Second Ave., S.
J. Frederick Sutherland (331).................
.....................1477 Northwestern Bk. Bldg.

MISSISSIPPI

Jackson
J. O. Manning (299)..............3012 N. State St.

MISSOURI

Clayton
Gunther Meier (319)...............18 N. Meramec

Joplin
Rolla E. Stephens (264).........711 Virginia Ave.

Kansas City
George M. Bliss (360)...............17 E. 10th St.
C. F. Curry (345).............921 Baltimore Ave.
E. F. Pierson (289)..........311 Commerce Bldg.

St. Louis
W. C. Bernard (91)................317 N. 11th St.
William W. Butts (93)..........803 Chestnut St.
Herbert O. Byrd (302)...........818 Chestnut St.
Charles J. Daly (94)............801 Chestnut St.
Otto J. Dickmann (225)..........623 Chestnut St.
Chester A. Dougherty (249)........109 N. 7th St.
John H. Farish (201)..............713 Chestnut St.
Grover Godwin (418)......913 Ambassador Bldg.
Joseph B. Hall (2)................1311 S. 39th St.
Joseph W. Hannauer (15).........811 Chestnut St.
Curt C. Mack (449)..............714 Chestnut St.
Monroe H. Rodemyer (218)..........109 N. 8th St.
N. S. Wood (131)................709 Chestnut St.

NEBRASKA

Lincoln
C. C. Kimball (381).............228 Stuart Bldg.

Omaha
C. D. Glover (67)...........1221 City Natl. Bldg.
Lewis C. Sholes (23).........305 Paterson Bldg.
Clinton B. Stuht (33).........Aquila Court Bldg.

NEW JERSEY

Atlantic City
Maurice A. Kelley (325)...20 S. Tennessee Ave.

Butler
Frank B. Fay, Jr. (171)............Fayson Lake

Camden
Ralph D. Baker (60).............924 Broadway
W. W. Chalmers (63).........4th & Federal Sts.
J. William Markeim (86).....4th & Federal Sts.
Abraham J. Rosenfeld (213)....114 N. Broadway
Leon E. Todd (340)..........2623 Westfield Ave.
Philip Zinman (95) ....333 Arch St.

East Orange
Frank H. Taylor (6)................520 Main St.
Harry A. Taylor (108)..............520 Main St.

Elizabeth
John K. Leeds (99).............286 N. Broad St.
B. B. Miller (58)...................215 Broad St.
Burton Thompson (43).............18 W. Jersey
Max Tieger (112).................207 Broad St.

Hackensack
Isidoro Quintana (78).......Court House Square

Jersey City
George E. Dugan (236).........345 Central Ave.
Percy A. Gaddis (22)......Jersey Journal Bldg.
D. E. C. Somers (175)...........700 Bergen Ave.
R. E. Thompson (419)..Centl. R. R. of N. J. Term.

Linden
John Fedor (65)...............540 S. Wood Ave.

Metuchen
J. K. Powell (77).....................Oak Hills

Newark
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